

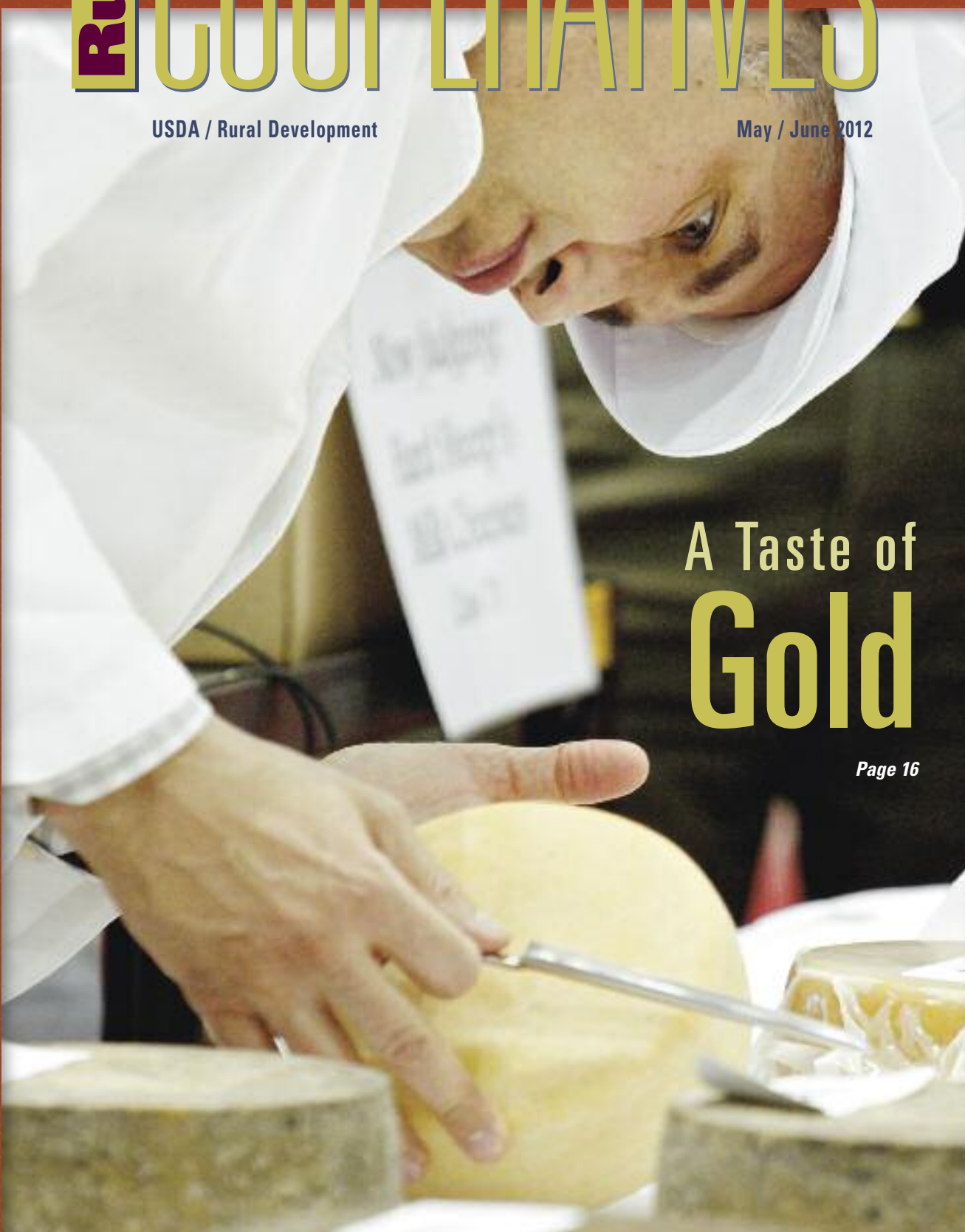
Rural COOPERATIVES

USDA / Rural Development

May / June 2012

A Taste of Gold

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Commentary

If only Abe could see us now!

By Dan Campbell, Editor



On May 15, 1862, President Abraham Lincoln signed into law an Act of Congress creating USDA. His goal was to launch a federal agency that would help create a more prosperous nation by making it one of the world's leading producers of food and fiber. That mission has been accomplished many times over, as American agriculture today is the envy of the world.

But if Lincoln were to return to USDA as we celebrate its 150th anniversary in 2012, he would undoubtedly be amazed to see how USDA has evolved and grown. For example, he would see highly skilled botanists and other scientists at work in laboratories operated by USDA's Agricultural Research Service, where they are striving to find ways to fight a wide range of plant diseases and to breed new drought-tolerant and insect-resistant plant species.

Lincoln would see USDA Forest Service foresters implementing forest management plans that help ensure that our national forests provide recreation, wildlife habitat and an abundant source of timber for the nation. He would also see USDA Foreign Agricultural Service staffers studying markets around the globe, constantly looking for new export opportunities for U.S. farmers.

At USDA's Food and Nutrition Service, Lincoln would see men and women striving to ensure that no child in America ever goes to bed hungry. At USDA's Natural Resources and Conservation Service, he would see staff members helping farmers and ranchers develop land management plans that protect crucial wetlands and other fragile land resources. He would see how USDA Food Safety and Inspection Service workers stationed in meat-processing plants are helping to ensure the wholesomeness of the food that winds up on our dinner plates.

At USDA Rural Development, Lincoln would find an agency with offices across the nation where staff members help rural Americans accomplish the dream of homeownership and support development of affordable rental housing and community facilities, such as fire stations, medical clinics and day care centers. He would see other Rural Development staffers working with local



business developers and lenders to finance promising new business startups and expansions, helping to create new jobs in the process.

Lincoln would see how the Rural Utilities Service of USDA Rural Development provides financial and technical resources to help the nation's rural electric cooperatives keep rural America fully charged. Many of these co-ops are also using USDA programs to extend broadband services to all corners of the nation, improving the competitiveness of rural communities.

And through the Cooperative Programs of Rural Development, he would find an office that serves as the nation's leading source for cooperative educational materials (including this magazine), research, statistics and technical assistance, all designed to help improve the operations of America's cooperatives and to make more people aware that the cooperative business-model is the ultimate tool for sustainable economic self help.

So, while Honest Abe would undoubtedly be surprised to see the diverse missions mentioned above (and many more) that are accomplished daily at USDA, we think he would be happy with the results of what he started that spring day 150 years ago. ■

Features

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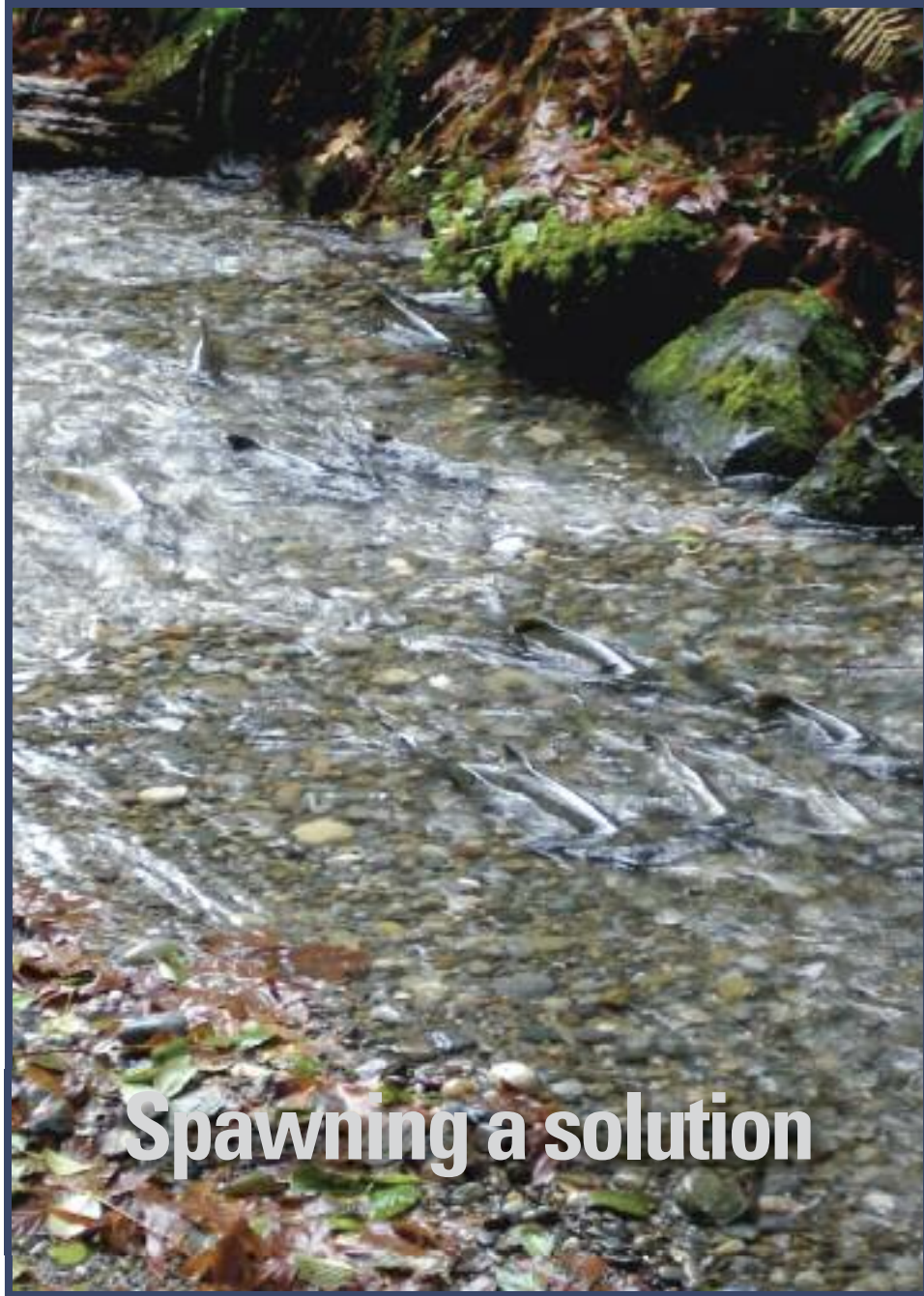
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ON THE COVER: A judge digs into his work while evaluating cheese entries in the 2012 World Championship Cheese Contest. U.S. dairy co-ops claimed a number of gold medals in the international competition, held in Madison, Wis. Article on page 16. Photo by Kris Ugarriza, Courtesy Red Wave Pictures





Spawning a solution



Farmers, Indian tribes, environmentalists form co-op to restore Washington salmon run



John Sayre (left) of Northwest Chinook Recovery and farmer/rancher Dale Reiner are helping to preserve the Haskell Slough (seen here) as an important salmon rearing habitat in Washington. Opposite page (bottom): Dairy farmer Andy Werkhoven has reduced the environmental impact of his operation by recycling the farm's manure through an anaerobic digester. Photos by Alan Honick. Salmon photo courtesy U.S. Environmental Protection Agency.



By **Stephen Thompson, Assistant Editor**
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Mention of the Pacific Northwest often conjures visions of salmon leaping in crystal-clear streams.

Unfortunately, the salmon runs are much reduced compared to the past, and many once-numerous species are now listed as “threatened” and even “endangered” in some watersheds. Groundwater contamination and runoff from farms may be contributing to the problem.

The issue of agricultural activities compromising salmon habitat has long caused tension in coastal Washington between Indian communities, for whom the salmon are a vital cultural heritage, and farmers. Recently, members of the two groups have discovered ways to

work together to decrease water pollution and bring back salmon habitat without threatening farmers’ livelihoods.

Qualco Energy, a nonprofit cooperative venture of farmers, the Tulalip Tribes and conservationists, is operating an anaerobic digester at Monroe, Wash., in the environmentally sensitive Snoqualmie River watershed. It’s turning dairy manure into electric power and helping to defuse a hot-button issue in the area.

It’s a win-win for the farmers, the conservationists and for the salmon. The digester allows dairies to expand their output while reducing nutrient and bacteria levels in groundwater and the nearby river. It also greatly reduces odors in comparison to traditional manure lagoons — a big concern in an area with bedroom communities close to the farms.

Flood control effort sparks project

Dale Reiner runs a beef cattle ranch on the Skykomish, near Monroe, that has been in his family for over 100 years. In 1990, a flood caused major erosion on the land and the river threatened to change course, with the potential to wipe out a large chunk of his property. Reiner wanted to build flood protection. “I wanted to save what I got!” he says.

After finding it difficult to get the required permits, Reiner decided to talk to local conservationists. “I figured if I worked with the environmental community, I might get the ball rolling a lot faster,” he says.

A friend put him in touch with John Sayre of Northwest Chinook Recovery, a nonprofit seeking to reclaim salmon habitat. On a visit to the ranch, Sayre was shown Haskell Slough, a backwater

of the river that would wash out when the river bed “migrated.”

“He said the slough could make prime rearing habitat for young salmon,” Reiner recalls. The problem was that its current geography cut off the slough from the river during periods of low water flow.

Salmon have been central to the Tulalip culture and way of life for centuries. But population growth and runoff from industrial activity and farming have combined to make the local waterways less hospitable to the fish, which — along with overfishing — has resulted in a decline in fish populations. As a result, Chinook salmon and steelhead in the Puget Sound area are listed as “threatened” under the Endangered Species Act.

Pacific salmon spend most of their lives in the ocean, but they lay their eggs and spend the early years of their lives in freshwater streams and rivers. The yearly salmon runs, in which the adult fish return to the places they were hatched to spawn and die, used to see rivers teeming with the large fish, which provided livelihoods to humans and wildlife alike.

Saving crucial fish habitat

The reduced salmon run of recent years is a problem with far-reaching effects. Research has shown that the upper forests of the Pacific Northwest depend on the returning salmon for essential plant nutrients: the fish return, spawn and are eaten by animals, including bears, which then spread the nutrients in their droppings.

Together with a neighbor who owned adjoining property, Reiner and Sayre’s nonprofit put together a project to save the slough from destruction and reclaim it as salmon rearing habitat. This would be accomplished by connecting several ponds and excavating a channel to the river.

Local environmental groups, the Tulalip tribes and state and federal agencies were involved in the project. Reiner was able to save his property, and Haskell Slough now serves as a nursery for thousands of young salmon.

The project was finished in 1999. “When it was opened, we had a big party out on the property,” says Reiner. “All kinds of politicians showed up; there was a news helicopter — it was a big deal.”



Digested manure liquid from the co-op’s anaerobic digester is sprayed on farm fields, providing both irrigation and nutrients. Photo by Alan Honick

The project encouraged local Indians and farmers to stop regarding each other as adversaries and look for more ways to work together for mutual benefit. Daryl Williams, the Tulalip Tribes’ environmental liaison, worked with Sayre and Reiner on the Haskell Slough project.

Co-op formed, pursues digester project

After the success of the Haskell Slough project, Williams says he, Reiner and Sayre realized that they worked well together, and they looked around for other projects. It was Williams’ brother, Terry, who got the idea of an anaerobic digester to reduce groundwater and stream pollution from dairy manure.

In 2000, they set up Qualco Energy, a nonprofit cooperative with three members: the Tulalip Tribes; Northwest Chinook Recovery; and Sno/Sky Agricultural Alliance, a local farmer group named after the Snoqualmie and Skykomish rivers. In the local Indian language, Qualco means “where two rivers come together.” It’s headquartered in Monroe, where the Skykomish and Snoqualmie merge to form the Snohomish River.

The paperwork needed to create the cooperative presented few difficulties. As a nonprofit, “We’re not looking at how to split revenues,” says Williams. Sno/Sky recommended an attorney who drew up the papers.

Even so, the project took a while to get off the ground. Funding had to be found, first for a feasibility study — which was paid for by a USDA Rural Development grant — and later for capital. The feasibility study highlighted the problem of low local power rates, which made it difficult to make the project pay for itself, says Williams.

That problem was solved by a change in state permitting regulations which allows the digester to use pre-consumer food waste for up to 30 percent of its feedstock. The higher energy content of the food waste produces more gas for the generator.

Finding a site

Finding a suitable site for the digester meant that it had to be close to participating farms on available land. Luckily, there was a piece of unused, state-owned property in Monroe that was close to ideal. It was a former prison work farm that had operated as a dairy — it even had a manure lagoon.

The land had another advantage, too. Unlike most state-owned property, it was not held in trust. That meant it could be transferred to another government agency — a requirement which the Tulalip Tribes, as a sovereign

nation, could fulfill. The land was donated by Washington state to the tribes, which in turn leases the property to the co-op.

Altogether, says Reiner, it took nearly eight years to overcome all the obstacles. The \$2.7 million for capital and initial operating expenses came

a switch to roller presses at an additional \$80,000 cost.

The digester currently has manure supply contracts with three nearby dairies, producing 450 kilowatts of power from the resulting biogas. It produces more gas than the current reciprocating generator can handle,

the rivers and helping the local economy.

The cooperative has six directors, all unpaid, two from each of the participating nonprofits. Sayre, representing Northwest Chinook Recovery, also serves as president. Williams is vice-president and Reiner, representing



Members of the Tulalip Tribes fish for salmon in waters protected from dairy manure contamination, thanks to a new anaerobic digester. The digester operates on land donated by Washington state to the tribes, which in turn lease the property to a co-op. Photo by Alan Honick

from a low-interest loan from a local bank, made possible by a federal tax break. The digester was finished in December 2008, began full-scale operations the following February and received its first payment for power sales in March.

There have been startup problems. The digestion process is complicated by use of food waste, including blood from a packing house, expired beverages (soft drinks, beer and wine) and grease. The food waste is highly liquid, says Reiner.

“Nobody else was combining cow manure with so much other liquid.” It turned out that the screw-press used to remove liquid from the digested compost wasn’t up to the job, requiring

resulting in some of the gas being flared.

How to use the excess gas is now being studied, says Williams, with one possibility being a boiler to provide heat for sale to local customers. A steam turbine would generate electricity at times when heat demand was low. Another possibility is tri-generation, in which heat from a reciprocating engine’s exhaust and coolant are recovered and used as energy.

Co-op seeks more dairies

In the long term, expansion may allow more local dairies to participate, further reducing the possibility of nutrient and bacteria contamination in

Sno/Sky Agricultural Alliance, is treasurer. According to Williams and Reiner, the co-op is run on a consensus basis.

“It slows down decision-making, but we get better decisions,” says Williams. Day-to-day maintenance of the digester is contracted out to the adjacent participating dairy. Any profits not used by the co-op are to be donated to local conservation efforts.

Williams is optimistic about further efforts to preserve the area’s precious natural inheritance. He thinks the Qualco cooperative shows that conservation interests and farmers in the area are both better off working together. ■

When it comes to local food, co-ops are on the map



The increasing popularity of local and regional food is helping to spur creation of new cooperatives. Children at Dayton Elementary (right) in Dayton, Nev., harvest potatoes from the school's Healthy Communities Garden.

By Kathleen Merrigan, Deputy Secretary
U.S. Department of Agriculture



Cooperative models are as diverse as is America's agricultural industry. As consumer demand for locally

produced foods has boomed, cooperatives have innovated to meet these demands in many different ways. Today, co-ops are engaged in every stage of the local-foods supply chain — from production to packing, processing, distribution, marketing and retail.

In late February, we launched an

exciting new tool at USDA to support this work: the Know Your Farmer, Know Your Food Compass, an interactive map and accompanying guide to USDA resources that support local and regional food systems.

Cooperatives receive explicit mention in the infrastructure section of



- The Farm to Institution Section of the KYF Compass highlights USDA's technical and financial resources to build strong relationships between farms and institutional buyers. Cooperatives are already engaged in developing these relationships. In Colorado, for example, the Rocky Mountain Farmers Union Cooperative Development Center helped a group of lamb and beef producers start Local Brands Farm and Ranch Markets Co-op, which sells through local farm-to-school programs. With the tools outlined in the KYF Compass, other producer co-ops can leverage these institutional marketing opportunities.

- The Infrastructure Section discusses food hubs, aggregation centers that help small and mid-sized farms and ranches collectively market their products to reach larger buyers. Some food hubs are organized as cooperatives. They can aggregate product through brick-and-mortar facilities or online. For example, in Washington state, Tom Husmann of Olympia Local Foods developed an online food aggregation hub for 50 local farmers and is developing a shared kitchen cooperative venture as well. He's doing this with the help of a Value-Added Producer Grant (VAPG) from USDA Rural Development.

The Northwest Cooperative Development Center, which itself was supported by a Rural Cooperative Development Grant from USDA, helped Husmann secure the VAPG. These types of stories illustrate how different USDA grants can be pieced together to support many aspects of local food system development.

- The Local Meat and Poultry Section discusses USDA support for small-scale slaughter and processing



the Know Your Farmer, Know Your Food (KYF) Compass, where the discussion focuses on how some cooperatives aggregate product from small and mid-sized producers and market them collectively. But really, cooperatives have a place in every one of the eight Compass sections.

Likewise, many of the dots on the map are in some way connected to co-ops.

That's why we hope that cooperatives and others will use the KYF Compass as a tool to navigate USDA resources and learn about new business opportunities. Here are some of the ways it can help:

facilities around the country to help local meat producers add value to their products. USDA supports other food processing activities as well. For example, Local Roots Market and Café in Wooster, Ohio, is using a USDA grant to develop a shared commercial kitchen. It expects 25 businesses to benefit from increased revenue and 10 new businesses to start up as a result of kitchen access. Local Roots began in 2009 as a year-round farmers' market and has expanded rapidly since then, incorporating as a cooperative in 2010. Today, it has about 800 members and sells food from 150 local producers, who take home 90 percent of their gross sales.

- The Healthy Food Access Section discusses USDA support for the development of farmers markets and other retail alternatives to reach underserved communities. By coordinating the work of several USDA agencies on this issue, the Department has been able to expand the number of farmers markets that can accept electronic nutrition benefits such as SNAP (food stamps). The number of markets that accept these benefits grew by more than 50 percent between 2010 and 2011. Farmers markets that accept electronic nutrition benefits often see increased customer traffic and higher revenues as a result.

Cooperatives are again at the forefront of this work. Many farmers markets are organized under a cooperative structure and have ramped up their efforts to reach new customers in recent years. In Lexington, Ky., the Farm and Garden Market Cooperative Association began with fewer than a dozen farmer-members in the 1970s and now includes 75 members. In

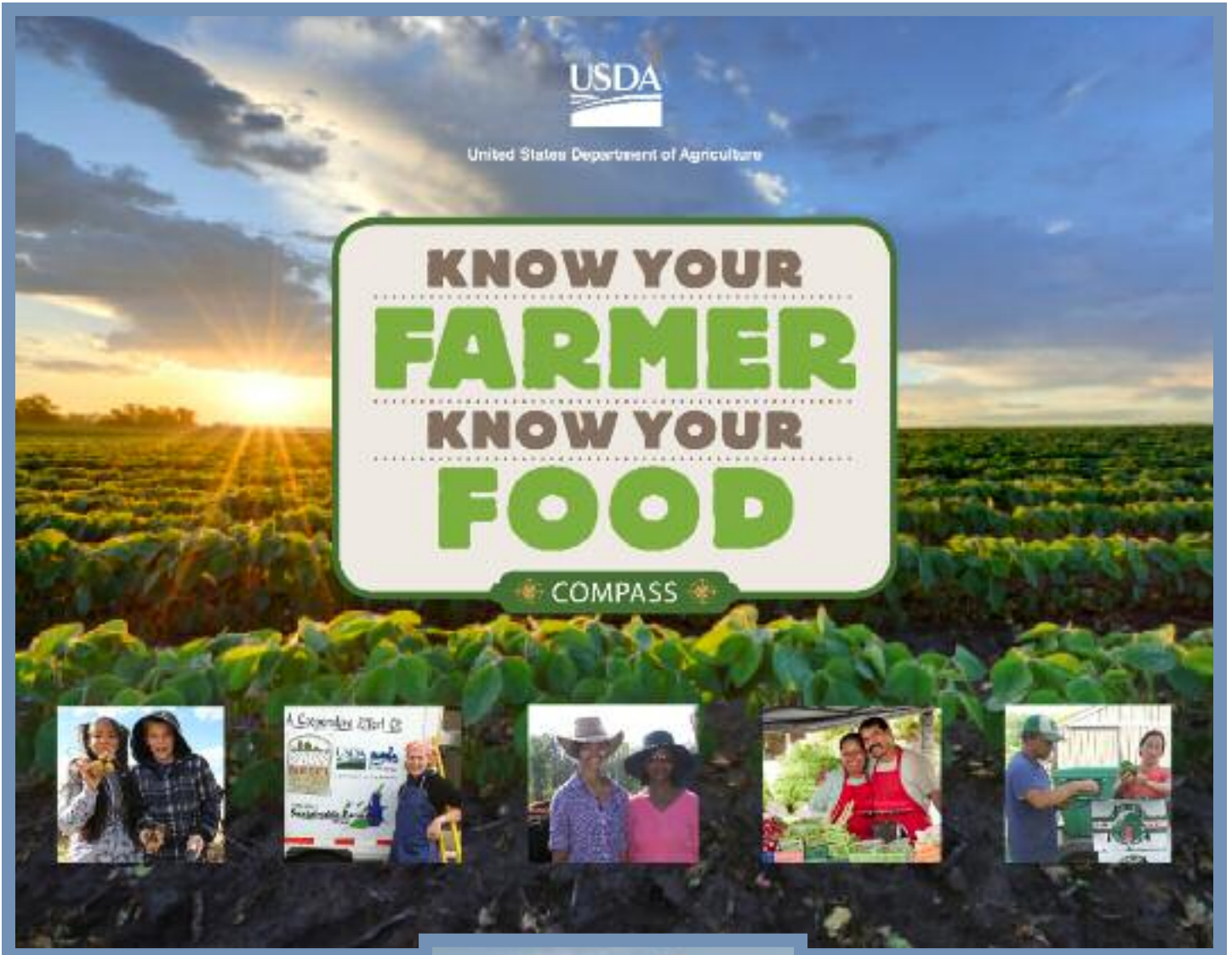


Third-generation farmer C.J. Isbell of Rockville, Va., says he is hard pressed to keep up with rising demand for his pasture-raised pork. USDA photo by Lance Cheung

Indiana, the Indiana Cooperative Development Center is providing a series of “farmers market boot camps” to help market managers and vendors train and collaborate.

Using USDA resources outlined in the KYF Compass, such as our guide for market managers on how to accept SNAP and other benefits, these markets can become even more successful.

This is just the beginning. Other sections of the KYF Compass will provide helpful resources as well — about environmental stewardship, career opportunities in farming and food entrepreneurship, and research and data to help cooperatives understand the market and develop successful businesses. There’s even a section on how other federal agencies



are supporting local and regional food systems — a great source of information for cooperatives interested in securing federal support for a variety of projects.

Writing the KYF Compass was a cooperative venture here at USDA, so it's fitting that it contains so much of use to the cooperative community. The map and narrative will be continuously updated every few months, so be sure to check back regularly for new tools, resources, and dots on the map. Let us know if you're doing innovative work with USDA support that you'd like to be highlighted as a case study or blog



Jo Pendergraph's (left) family raises specialty produce for chefs and markets in central Virginia. USDA photo by Lance Cheung. Above: Visitors to www.usda.gov can select the "Know Your Farmer, Know Your Food" option (middle of USDA home page, right side) to find links to numerous local food-related resources.


— simply send us an e-mail at: knowyourfarmer@usda.gov.

Explore, share and use the KYF Compass: it's a valuable guide to help you navigate the ins and outs of USDA support for the work you're doing. ■



World Wide Web goes local

By Adam Diamond,
Agricultural Marketing Specialist
USDA Agricultural Marketing Service

 **T**he Oklahoma Food Cooperative was established in 2003 to help consumers buy locally produced food and enable local producers to earn a greater share of consumer food expenditures through direct sales. While building on an earlier wave of buying club and retail food cooperative proliferation in the early 1970s, the Oklahoma Food Cooperative's online ordering format was the lynchpin that enabled its success. The co-op could not have functioned properly without

*How the
Oklahoma Food
Cooperative uses
the Internet
to bring farmers,
consumers
together*

the Internet and its ability to connect large numbers of geographically separated people in real time at low cost.

Three core values inspired the creation of the cooperative, helped define its initial structure and continue to shape its development and growth. The co-op's articles of incorporation explain that: "the activities of the Oklahoma Food Cooperative are governed by its core values of social justice, environmental stewardship and economic sustainability."

Together, these values constitute a "triple bottom line" that is becoming an increasingly common baseline for performance measures in the world of socially responsible business enterprises.

In the case of the Oklahoma Food Cooperative, the following three principles govern its business operations:

- Participation in the cooperative must be financially viable for producers.
- Goods sold through the cooperative must be produced with methods that do not pollute ecosystems or otherwise waste natural resources.
- The economic benefits of the business should be distributed equitably and not flow disproportionately to a small segment of those involved in its operation.

These core values have guided the cooperative in working towards its goal of building a local food system — a network of producers and consumers that is limited in geographic scope and rich in diversity of product.

Search for local food launches co-op

The initial impetus for the co-op's formation grew out of the challenges its founder, Bob Waldrop, faced as he tried to buy his household's food from local growers. In 2002, the year prior to launching an organizing campaign for the Oklahoma Food Cooperative, Waldrop tried to buy as much of his food as possible from local growers. While he eventually managed to supply 80 percent of his household's food from local sources, he had to drive far and wide throughout Oklahoma to do so. He felt there must be a better way.

Waldrop and other like-minded local food enthusiasts organized a series of organizing and outreach meetings around the state to gather support for the creation of a statewide cooperative focused on Oklahoma foods, which led to the creation of the Oklahoma Food Cooperative Organizing Committee.

After exploring the possibility of opening a retail store as a way to increase the availability of locally grown food, the committee soon realized that establishing a buying club would be more feasible. It would not need as much start-up capital and would be less

risky than a bricks-and-mortar store.

The question then became how to create a buying club that focused specifically on Oklahoma foods. With no model to follow, a database of Oklahoma producers was built up through mailings to direct marketing farmers and ranchers, from a "Made in Oklahoma" website, newspaper classified ads and from people who contacted the co-op on their own initiative.

The cooperative paid a software developer, who worked at a discounted rate due to his commitment to the co-op's goals and mission, to develop a customized online ordering program for co-op members. Products were assigned unique codes in the database and were then listed online. Consumer members used the online portal to place orders on the co-op's website. Orders were gathered on delivery day at a church. From these humble beginnings emerged a dynamic, sophisticated and successful model for marketing locally grown food.

Social networks as organizing catalyst

Key to Waldrop's ability to garner support for, and participation in, this incipient local food system was his position as the music director at Oklahoma City's Grace Epiphany Catholic Church. Through his job, he had developed an extensive network of church contacts from which he recruited the initial core group of co-op organizers.

People in this core group reached out to their social networks and grew the consumer member base of the co-op faster than would have been possible through formal advertising efforts, especially considering the limited resources the group started with. Grace Epiphany church members supported Waldrop's efforts and provided critical support for the co-op in its early months. They made a space available for deliveries, administrative work and photocopying, and also made many in-

kind donations because they believed in the co-op's mission.

Financing and Sales Growth

The value of products sold through the cooperative grew from \$100,000 in 2004 to \$864,000 in 2010. In the same time period, the number of consumer members grew almost 50-fold, and the number of producer members grew 10-fold. Product offerings have also grown dramatically, from 1,100 in 2006 to more than 4,000 items now offered for sale each month, ranging from sirloin steak, to artisanal cheese, vegetables, frozen pizza, flour, botanical soap and plants.

Most of the cooperative's financing has come through the sale of lifetime memberships for \$50 (for both producers and consumers) and from commissions charged to buyers and sellers on each transaction. For a \$10 item, the consumer pays \$11 and the producer gets \$9. With the onset of the economic recession in 2008, the rate of sales growth slowed, but sales still increased 7.5 percent in 2009 from the previous year, as demand for local food continued to grow and outpaced growth in overall food sales.

Business structure and operations

During the first five years of operation, the cooperative had no formal employees. All work was done by an all-volunteer board of directors, an unpaid general manager (who did double duty as president) and by 50 to 70 "volunteer" co-op members, who were compensated at the rate of \$7 an hour in work credits (redeemable for items sold through the cooperative). Route drivers used their own vehicles and were paid 36 cents a mile.

The operational structure was, and largely remains, informal. Any co-op member can be a route driver on a contract basis. The volunteers are responsible for setting up on delivery day, sorting incoming items by customer and route, and loading orders

Local community participation was key to development of the co-op.

on trucks that transport them to pick-up sites near where customers live.

It is quite a sight to see dozens of volunteers quickly assembling thousands of items to fill orders — everything from lamb chops and kale to eggs. Orders are labeled with the customer's name and route number. There are separate tables for frozen, fresh and nonperishable items. While there is a somewhat chaotic appearance to it, this assembly process has proven to be surprisingly efficient in fulfilling orders. The co-op reports that its loss rate is only about 1.5 percent for the 600–700 orders shipped out on 48 delivery routes each month, containing a combined total of about 10,000 items.

New-generation buying club for Internet Age

In contrast to retail store-front cooperatives or traditional buying clubs that rely on printed catalogs or price sheets, the Oklahoma Food Cooperative relies on the Internet to reach consumers, facilitate the marketing of thousands of highly differentiated products, take orders and process payments. Computer technology reduces much of the labor, postage and paper previously associated with sending catalogs, writing down orders, mailing and processing checks and notifying consumers of inventory changes.

Each month, the co-op provides an 8-14 day ordering window (from the 1st of the month through the 2nd Thursday of the month). During the ordering window, producers list products for sale on their section of the co-op's website, complete with detailed narratives about their farm and information about the methods and practices they use to raise animals or grow crops.

At the beginning of each month,

members can open their orders by perusing the offerings of more than 200 producer-members and placing a given quantity of a particular good in their electronic shopping basket. The order portal on the co-op's Website is flexible. Customers can change the quantity of an existing item, add new items or add comments to their order until the close of the order window. When they close their order, customers have the option of paying online with PayPal or paying by check when they pick up the order.

Prior to delivery day, each producer gets a list of orders. On delivery day — the third Thursday of the month — volunteers sort incoming orders from producers by route and load them onto trucks bound for any of the 48 pick-up sites around the state, where members have a four-hour window to pick up their orders. Co-op volunteers are on hand during this period to collect payment and handle problems, such as missing items.

This Internet-based system, in concert with the network of distribution routes, reduces producers' distribution and marketing costs to a bare minimum. In addition, farmers are not required to meet any volume thresholds to sell through the co-op. Consequently, the barriers to entry for smaller producers are very low.

Producers can start by selling a very small amount and increase sales over time as growing conditions, supply and consumer demand allow. Producers have complete autonomy in setting their prices and pay only a 10-percent commission to the co-op. Consumers also pay 10 percent to the co-op for shipping and handling.

Co-op infrastructure

To accompany the dramatic growth in the co-op's sales and its increased dependence on paid professional staff, the organization has substantially increased its infrastructure in the last four years. It has leased a new, 12,000-square-foot warehouse as its operations center and, with support from the USDA Agricultural Marketing Service's Farmers Market Promotion Program, has purchased three trailers — two of them refrigerated — to transport goods to customers.

Prior to leasing the warehouse, the co-op's delivery day was held in a large warehouse-like structure on the campus of Oklahoma State University in Oklahoma City. The same facility was also used for a weekly farmers market. While the space was large enough, the co-op's limited access to it created logistical problems. Everything needed for delivery day had to be brought in and taken out the same day.

With the leasing of the new operations center in May 2009, the co-op gained permanent storage space for tables, coolers, trailers, refrigerators and freezers. Producers can now drop off items before delivery day. Items left behind can be put in storage for later pickup, while set-up and take down of equipment for delivery day does not all have to happen in one day.

Having the warehouse allowed the co-op to streamline delivery day sorting with separate, permanent shelving areas



for perishable and nonperishable items. With a more efficient sorting process, the number of volunteers has held steady, at around 65, even as total sales have increased more than eight fold from its first full year of operation in 2004, through 2010.

In conjunction with leasing warehouse space, in 2008 the co-op purchased five trailers for use on delivery day to pick up orders from farmers and drop off customer orders from the central operations center to the various pick-up sites. Before the trailers were purchased, most producer members of the co-op were obliged to rent trailers from a U-Haul dealer, picking them up and dropping them off each delivery day to bring their product to market.

Obligations of producers: Product quality and integrity

The Oklahoma Food Cooperative places restrictions on what can be sold, in line with the organization's core values of environmental sustainability, social justice and economic viability, as well as its goal of creating a local food system. These marketing restrictions include the following:

- All products offered for sale through the co-op must be grown or produced in Oklahoma.
- Producers must conform to production standards set by the co-

op's standards committee.

- No hormones can be administered to livestock.
- The routine use of antibiotics in livestock is banned.
- Grains and crops containing genetically modified organisms are prohibited.
- Reselling of farm products is not allowed; producers are only allowed to sell farm products they have produced themselves.
- Processed and prepared foods may be sold through the co-op, but such items must incorporate significant alteration of the original ingredients, not just repackaging for resale. For example, a baker may sell frozen pizzas using cheese, tomatoes and flour purchased from Oklahoma producers, but a butcher would not be able to cut someone else's cuts of beef into smaller packages and resell them as his/her own.

To enforce these restrictions, Oklahoma Food Cooperative arranges for intermittent inspections of the co-op's producer-members by fellow farmers to verify that they are, in fact, producing the crops or animals they are selling through the co-op in accordance with the guidelines. In Waldrop's words: "We go to everybody's farm, not necessarily on any schedule, because it's volunteers who are doing it, [but] we make sure that if they sell tomatoes,

that they have tomato vines...in proportion to their sales."

Quality, price setting, and competition

The intense commitment of co-op members to obtaining locally grown foods produced with sustainable production methods has led them to value quality and process attributes of the products they buy more than price, allowing producer members of the co-op to become "price makers" rather than "price takers."

The strong bargaining position of producers within the co-op is evidenced by the fact that when the co-op has raised the commission levied on producers to fund increased overhead costs, the vast majority of producers have raised their prices to compensate for the higher commissions, without suffering a decline in sales.

With no restrictions on price setting or volume requirements, the Oklahoma Food Cooperative provides an accessible and responsive environment within which producers and consumers can interact. The Internet-based ordering system allows consumers and producers to interact across wide distances in real time, adjusting their purchases and product offerings in response to changes in product availability and consumer demand.

In general, the combination of the software interface, the freedom of producers to set prices, the month-long open order window and the large number of producers (200) and consumers (3,800) allow for a fluid, functional marketplace in which buyers and sellers are able to meet their needs in a highly transparent trading system. To learn more, visit the Oklahoma Food Cooperative website at: <http://www.oklahomafood.coop/>. ■

A Taste of Gold



Co-ops' world-class cheeses help U.S. dominate international competition

By Dan Campbell, editor
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For a college basketball team, making it into the “Sweet 16” round of the annual NCAA basketball tournament is a mark of excellence. So it is for the cheese industry, which has its own version of “March Madness” in which cheese makers from around the globe compete every other year in the World Championship Cheese Contest. (In the odd number years, the contest is a U.S.-only affair.) Shifting the sports analogy to professional baseball and the World Series, this contest could be viewed as the dairy industry’s “World Cheesies.”

There is a lot more competition in the cheese contest, however. Rather than 68 college basketball teams at the start of the NCAA tournament, or 30 professional baseball teams, the World Championship Cheese Contest this year attracted more than 2,500 entries that competed in 82 categories of cheeses and butters. These categories range from the “heavyweight” divisions — such as the various Cheddar, Swiss and Provolone categories — to much more highly specialized niche cheeses.

Among the gold medal winners in this year’s contest — held in Madison, Wis., in early March — were a number of U.S. cooperatives (see sidebar). The contest has grown in recent years to become a “must-see, ticketed event for

cheese lovers the world over,” says Cabot Creamery spokesman Jed Davis. This year’s contest sold out almost immediately, and the 400 ticket holders not only witnessed the competition, but were also able to nibble on some of the year’s best cheeses while “talking shop” with other attendees and the international panel of judges.

Better Cheddars

Cabot Vintage Choice Cheddar was named world’s best in the “Cheddar aged two years or longer” class. The co-op also won third place in that same category. Cabot Creamery (a subsidiary



of the Agri-Mark cooperative) also won third place for best reduced-fat cheese for its 50 percent reduced-fat Cheddar, as well as a third place for Cabot cottage cheese.

While winning those awards was very gratifying for the co-op, Davis says “it was an even bigger thrill to make it into the Sweet 16.”

That’s right, the gold medal winners in those 82 classes also go head-to-head in a playoff round that results in selection of the cheese world’s own

version of the Sweet 16. These 16 finalists are then tasted and re-tasted until the judges have selected the world’s top three cheeses.

This year, the top three prizes all went to European cheeses (see below). But overall, U.S. cheeses dominated the contest — especially in the “heavyweight” categories, where U.S. dairy co-ops tend to concentrate their production. Overall, U.S. cheese makers earned 55 of the 82 gold medals up for grabs.

Switzerland came in second with seven gold medals, while Canada was third with six gold medals. Denmark struck gold five times, the Netherlands four times, Germany and Spain two times each and Australia and Austria each captured one gold medal.

“Every medalist should be extremely proud of their accomplishment,” says John Umhoefer, executive director of the nonprofit Wisconsin Cheese Makers Association, which hosts the biennial competition. Since its inception in 1957, the contest has

grown rapidly, and this year was “the largest technical cheese competition ever held,” Umhoefer says.

Practically perfect

To win a gold medal, there isn’t much room for error. Like Mary Poppins, a cheese or butter has to be practically perfect in every way.

Explaining the judging process, Davis says each cheese starts with a perfect score of 100. “The judges look for technical defects, which results in

Judges in the World Championship Cheese Contest get final instructions before tasting, sniffing, feeling and visually examining some 2,500 cheese samples, as Tim Czmowski is doing (opposite page). U.S. cheese makers dominated the overall contest, winning 55 of the 82 gold medals awarded. All photos by Kris Ugarriza, Courtesy Red Wave Pictures

deductions from your score.”

Associated Milk Producers Inc. (AMPI), based in New Ulm, Minn., took home the gold medals for salted butter and for mild white Cheddar. To underscore how incredibly fine the margin of victory can be, consider that AMPI’s winning salted butter scored 99.9. Its winning Cheddar, made in Blair, Wis., received three technical deductions of .1 each, resulting in a winning score of 99.7.

“We lost .1 of a point for a tiny wrinkle in the package, .1 of a point for a slight bitter taste, and .1 of a point for a rounded corner,” says Joe Ganske, who has 40 years of service as a cheese maker and grader with AMPI. In Wisconsin, cheese makers like Ganske must be licensed in order to practice a craft that is held sacred in the state. After all, in what other state do people attend sporting events, proudly wearing hats that look like blocks of cheese?

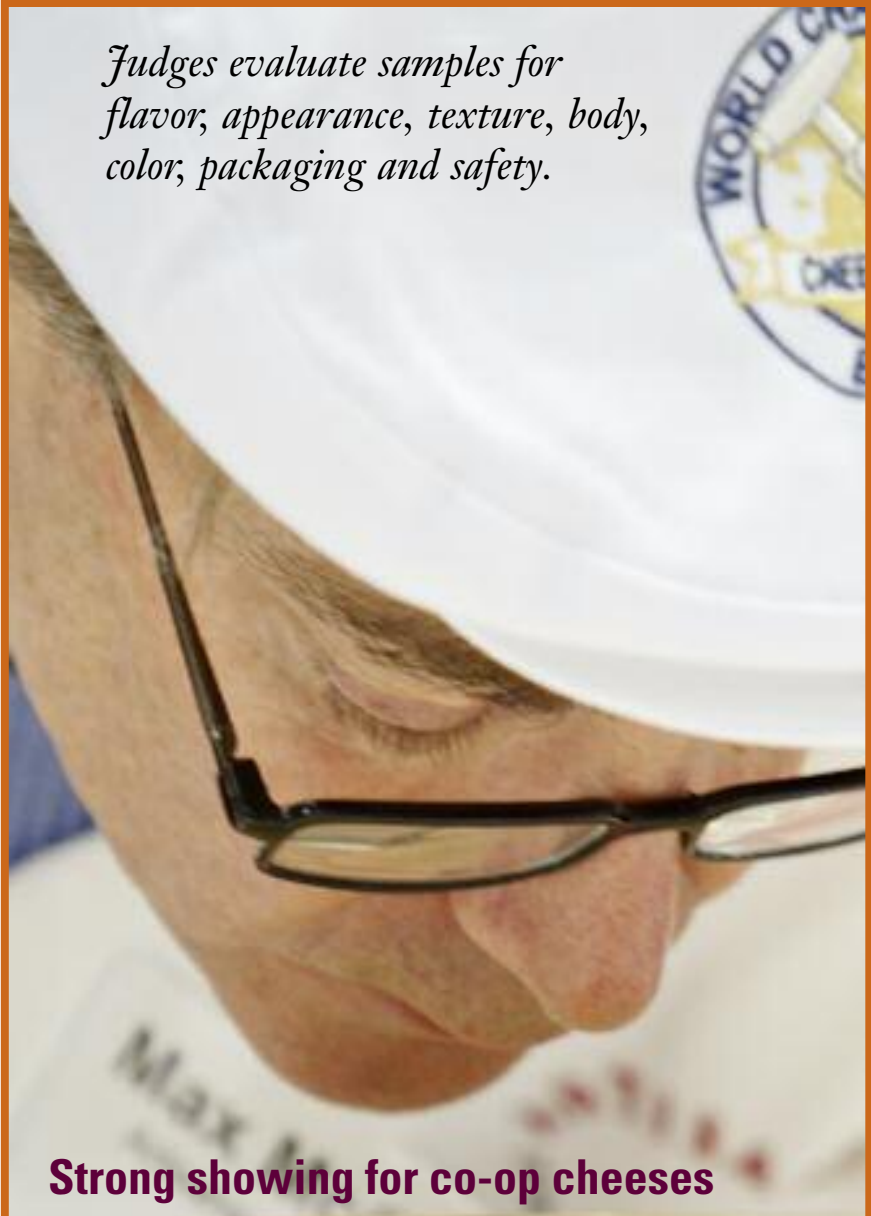
“The judges evaluate samples for flavor, appearance, texture, body, color, packaging and safety,” Ganske explains. AMPI’s champion Cheddar was made in one of 18 new cheese-making vats the cooperative purchased last fall. Ganske notes that the cooperative is the first U.S. cheese maker to install this type of innovative vat, which features advances in technology and automation that are making more and better cheese from the same volume of milk.

In addition to the many U.S. and Canadian entries in the highly competitive Cheddar categories, AMPI faced competition from Japan, New Zealand, South Africa and the United Kingdom, among other nations. AMPI also won second and third place awards for a hot-pepper flavored and American pasteurized process cheese, made at its Portage, Wis., plant.

As is also the case with a number of other U.S. dairy co-ops, most AMPI cheese is sold to co-packers and to the broader food industry, not directly to consumers under its own brand. Food industry customers rely heavily on the quality of the co-op’s cheese to help them get an edge in an ever more competitive food industry.

Experienced staff is key

Land O’ Lakes bagged a trio of first place awards for: Cheddar aged 1-2 years, for Monterey Jack and mild Provolone. The winning Cheddar and Monterey Jack cheeses



Judges evaluate samples for flavor, appearance, texture, body, color, packaging and safety.

Strong showing for co-op cheeses

Forty cheese experts — representing 17 nations and 10 U.S. states — judged more than 2,500 entries from around the world during the 29th biennial World Cheese Championships in Madison, Wis., in March. Among the cheese and butter classes in which U.S. dairy co-ops won gold medals were:

- Mild cheddar — AMPI;
- Cheddar, aged 1-2 years — Land O’ Lakes;
- Cheddar, aged 2 years or more — Cabot Creamery;
- Monterey Jack — Land O’ Lakes;
- Mozzarella, part skim milk — Foremost Farms USA;
- Provolone, mild — Land O’ Lakes;
- Baby Swiss — Swiss Valley;
- Cottage cheese, Upstate Niagara Co-op;
- Salted butter — AMPI;
- Unsalted butter — OATKA Milk Products Co-op Inc.

For more information on the contest, as well as complete results for all entry classes and contest photos, visit: www.worldchampioncheese.org.



were made at the co-op's plant in Kiel, Wis., while the Provolone was produced in Denmark, Wis. The co-op also picked up second place for Cheddar aged 6-12 months and third place for medium Cheddar aged 3-6 months.

The keys to Land O' Lakes' track record for excellent cheese is the high-quality milk used, as well as the deep experience of its plant employees, according to Kevin Schwartz, plant manager at both the Denmark and Kiel cheese plants. "We average 17 years of experience with our staff at the Kiel plant, and 14 years at Denmark. Our people know how to make great cheese, and they take a ton of pride in our product."

The co-op's own cheese graders taste every single vat produced. "They are so good that they can sample a cheese after seven days to predict the flavor and quality for aging, ranging from 2-3 years," Schwartz says. The cheese samples Land O' Lakes enters in the contest are pulled straight from normal production — no special "fancy treatment" is used to prepare contest samples, Schwartz stresses. That is also the policy of the other co-ops contacted for this article.

Cheese makers say there is a marketing value for winning awards. Most blue ribbon winners issue press releases, place ads in trade publications and trumpet the good news in their own publications and websites.

Swiss Valley Farms — which won first place for Baby Swiss cheese — issued a press release soon after the contest and is placing an advertisement in the June/July issue of *Deli Business* magazine, a trade publication read by many of its customers. The co-op will also include an article about the contest in *Dairyman*, its member magazine.

Swiss Valley Farms Baby Swiss cheese — characterized by numerous small, shiny "eyes" — stood out in part because of its exceptionally creamy texture and a flavor that is milder than traditional Swiss cheese. It also won best of class for Baby Swiss in the 2008 competition.

More than pride at stake

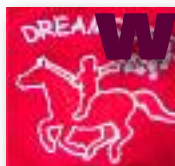
Winning isn't just a matter of pride and marketing. The scores and feedback from judges in contests can help cheese makers perfect their product and their art. And cheese

continued on page 46

Co-ops & Community

Georgia electric co-op supports equine therapy program, other community causes

Editor's note: This article was provided by Walton EMC, an electric cooperative based in Monroe, Georgia. The "Co-ops & Community" page spotlights the efforts of co-ops that fulfill the mission of "commitment to community." Whether these efforts make a co-op's hometown a better place to live, or are helping people on the other side of the world, co-ops are reaching out to make a difference. If you know of a co-op, a co-op member or co-op employee whose efforts deserve to be recognized on this page, please contact: dan.campbell@wdc.usda.gov. Reprint articles from co-op publications are welcome.



ould you go to a counselor named King, Sabo or Merlin? The children helped by Walton EMC

Operation Round Up's beneficiary Dream Quest sure would — and do.

King, Sabo and Merlin are horses in Dream Quest's equine-facilitated psychotherapy and therapeutic riding program, located in suburban Atlanta's Gwinnett County, which is served by the cooperative. The organization provides services for individuals with behavioral, emotional, social, intellectual or mild physical challenges through the use of horses and riding.

The co-op recently granted \$6,200 to the charity through its Operation Round Up program.

Dream Quest founder Kay Watson explains why horses are a vital part of her counseling staff. "This program works where traditional therapy may not. The kids see it as having fun riding horses, not going to a counseling session," she says. "The horses help kids connect with us. They look at us as a horse person, not a counselor."





Dream Quest founder and counselor Kay Watson, center, reassures first-time rider Rylee while Margaret Korges tends her mount. A bit apprehensive at first, most children quickly become confident once they mount the calm horses. Opposite page: Ready to ride! Photos by Greg Brooks, courtesy Walton EMC

“There’s something about the horses that lets kids connect,” says Jackie Griswold, Dream Quest riding instructor. “They like the idea that they can control a 1,000-pound animal. And they enjoy grooming and taking care of the animals as much as they do riding them.”

Griswold adds that the sessions give some children a chance to get away from their everyday situations filled with strife and uncertainty. Kids as young as five take part in Dream Quest’s activities.

Besides one-on-one sessions, Dream Quest runs a summer camp where several children experience a week of equine bliss. Besides riding and grooming, campers get to do things like decorate the horses with paint and glitter.

That means not just any horse is suitable for work at Dream Quest.

“The horse has to be calm and quiet with a medium energy level,” says Griswold. “Horses are naturally claustrophobic, so they have to be OK

with people walking close beside and in front of them.

“The work for the horses is not very physically demanding, but it’s really mentally demanding,” Griswold adds. “It’s confusing. Horses respond to movements and pressure from the rider’s body. The kids are all over them, so they have to try to figure out what to do.”

Walton EMC began Operation Round Up in 1997. Participants allow the co-op to round their monthly electric bill to the next dollar with the resulting change going to a trust that disburses the funds.

A 15-member volunteer board made up of co-op members from across its service territory governs the trust. The board meets at regular intervals to review applications from both individuals and organizations in the community. No funds can be used to pay electric bills, ensuring the program is not self-serving. The co-op picks up all administrative costs, so every penny donated goes back to the community.

Serving on the board is not a ceremonial position. Board members do background work and investigate applicants. They bring their findings back to the entire board for smart giving decisions.

“Round Up is a cooperative of sorts,” says Greg Brooks, Walton EMC Communications Coordinator. “It aggregates the tiny donations from tens of thousands of members to make a huge impact in the community. It’s a natural extension of the seventh cooperative principle — Concern for Community.”

Other recent grants made by the co-op include:

- **The Cottage** — \$478 to buy a multimedia projector for a Clarke County children’s advocacy center.
- **Northeast Georgia Council Boy Scouts of America** — \$5,000 for financial assistance to allow underprivileged youth to participate in its programs.
- **Shepherd’s Staff Ministries** — \$2,475 for emergency and transitional housing in the Loganville area.
- **The Next Step Foundation** — \$3,000 for project “Kitchen Education Support Group” for mentally challenged adults in Gwinnett County.
- **Lilburn Cooperative Ministry** — \$10,000 for various types of assistance to those in need.
- **Butterfly Dreams Farm** — \$7,500 to improve the grounds and equipment for its Oconee County therapeutic riding program.
- **Gwinnett Environmental and Heritage Center Foundation** — \$2,500 for a field study program.
- **Rainbow Community Center** — \$1,500 for food and education in Walton, Morgan, Rockdale and Newton counties.

Additionally, five families received \$14,715 for various needs.

Walton EMC is a customer-owned electric utility that serves 118,000 accounts over its 10-county service area between Atlanta and Athens. ■

Tune up your CO-OP



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.



Assessing Performance and Needs of Cooperative 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.



Understanding Cooperative Bookkeeping and Financial Statements (CIR 57)

All co-op board members should understand bookkeeping and be able to read financial reports. This guide provides the basics in bookkeeping and cooperative financial statements.



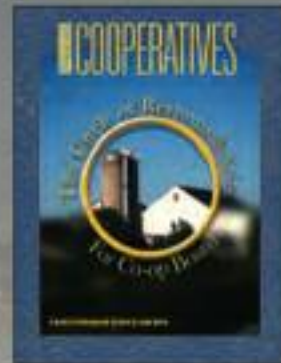
Directory of Farmer Cooperatives (SR-22)

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. This directory has been updated every four years but now will be updated yearly and revised on our Web page (www.rurdev.usda.gov) whenever information in an individual listing changes.



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.

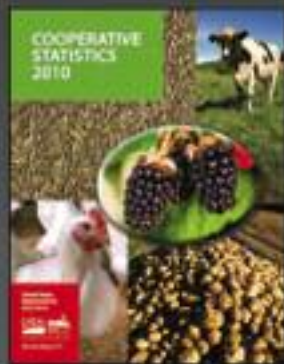


The Circle of Responsibilities for Co-op Board Members (CIR 61)

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.

Is your cooperative delivering maximum performance for its members? To help ensure that it's "firing on all cylinders," request copies of any of the publications on these pages. Or download them from the Web. Either way, there is no cost.

For hard copies (please indicate title, publication number and quantity needed), e-mail: coopinfo@wdc.usda.gov, or call: (202) 720-7395. Or write: USDA Co-op Info., Stop 0705, 1400 Independence Ave., SW, Washington DC 20250. To download from the Web, visit: <http://www.rurdev.usda.gov/RDPublications.html>.



Cooperative Statistics 2010 (SR 71)

Want to know how your co-op measures up? Need to know the latest co-op production and financial trends? It's all in here.



Guide to Designing Benefit Packages for Cooperatives (SR 36)

Attracting and keeping productive employees is a major challenge for co-ops. Here's a guide to building compensation packages that help do that while keeping the balance sheet in the black.



Managing Your Cooperative's Equity (CIR 56)

Do you manage your co-op's equity, or does it manage the co-op? Here's a guide to more effectively managing equity capital while adhering to cooperative principles.



Annual Audits - Board Responsibilities (CIR-41)

Directors, managers, and advisers of new and developing cooperatives need to be well informed about the importance of an annual audit. This publication summarizes information concerning audits and reviews of accounting systems in four areas: (1) Reasons for an audit; (2) auditor selection; (3) audit procedures and audit report; and, (4) other accounting services.



Base Capital Financing of Cooperatives (CIR 51)

Successful management of equity requires a responsive and objective capitalization program. A base capital plan is an ideal way to meet this requirement. This guide provides information on the benefits of the base capital method of capitalization, and guidelines for implementing and operating such a plan.



Inventory Management Strategies for Local Supply Cooperatives (SR 41)

Presents vital strategies for farm supply cooperatives to use during everyday management of inventory. Can help co-op managers make better inventory management decisions by using those strategies as part of an organized plan.

Utility Co-op Connection

Surging oil industry sparks economy, but also creates challenges for co-op



By Angela Schepp,
Business Development Manager
Northwest Communications Cooperative



The opening of the Bakken Oilfield has hit home like a sonic boom in North Dakota, creating a parallel economic boom that is affecting most aspects of life in the region. North Dakota is reaping a billion-dollar budget surplus thanks to the oilfield development and all the related growth it has triggered; unemployment has dropped to less than 4 percent.

The Bakken formation underlies about 200,000 square miles of parts of Montana, North Dakota and Saskatchewan. More than 550,000

barrels of oil are being produced from it daily.

There are more than 200 drilling rigs working the oilfield. Each rig drills for about 30 days, then a pump is installed and the drilling rig moves on to another site.

While new income and job growth like this would be the envy of much of rural America, it is also creating challenges for businesses and government agencies that are hard pressed to keep up with new demand. The strain is being felt on water supplies, sewage systems and government services.

Many businesses are enjoying a windfall of new demand for goods and services, but are also struggling to keep up. Northwest Communications

Cooperative is one of them. It is adding staff and taking related actions to try to keep up with the rapid expansion of demand for its telecommunications services.

Two-edged sword

Most people here are excited about the economic prosperity the boom is creating for communities. Home and property values are rising, businesses are growing and new neighbors arrive every day. Even the most remote areas are seeing more traffic than ever before.

When a rural region grows this fast, there are bound to be growing pains, and the Bakken Oilfield is most definitely affecting every aspect of community life. Housing, traffic, local law enforcement and emergency



More than 200 oil drills are at work in the Bakken Oilfield, which underlies portions of North Dakota, Montana and Saskatchewan. Photo courtesy Journal Publishing Inc., Crosby and Tioga, N.D.

The economic boom sparked by oil production has resulted in a strain on the region's infrastructure, including a housing shortage, despite efforts to keep up with demand (opposite page). Photo by Angela Schepp, courtesy Northwest Communications Co-op

services, hospitals, schools and utilities are all impacted.

Increased vehicular traffic has caused road quality to deteriorate and resulted in an increase in the number of traffic accidents. Semi-truck traffic has skyrocketed as big rigs haul in equipment, fresh water and sand for the oil drilling. They then turn around and haul out salt water as a waste.

The result of all that heavy truck traffic has taken a toll on road quality.



Most gravel roads, and even many paved roads, are scarred with holes, many of them huge. County road crews are simply not able to keep up with all the needed repairs.

The workload for law enforcement is rising along with the numbers of accident and crime reports. Fire and ambulance departments, most of which are staffed by volunteers who have other full-time jobs, are being taxed to the maximum; many are being called out more than once each day to deal with emergencies.

Telecom co-op sees demand soar

Northwest Communications Cooperative (NCC) is a small rural telecommunications cooperative located in the heart of the Bakken Oilfield. It serves an area of 5,000 square miles in northwest North Dakota. This service territory is very rural, historically averaging just over one customer per square mile, although that ratio may

well have doubled with all the economic activity of recent years.

The co-op has seen major increases in demand for most of its services. In an industry that has seen telephone landlines decline by 5 to 20 percent nationally in recent years, NCC has seen an increase of almost 6 percent. The number of Internet subscribers, NCC's most popular service, has grown almost 25 percent in only 18 months.

Requests for new data circuits to

individual businesses have gone "through the roof." Demand for cable TV, another popular service of the co-op, has increased by almost 13 percent in three years.

The co-op, which has functioned with about 30 full-time employees for many years, has added 11 full-time employees in just the past year. It is currently advertising for an additional five employees.

But the area is facing a severe housing shortage, so finding homes for the new staffers is a big challenge. It has also become difficult for the co-op and other local businesses and governments to compete for needed employees vs. the higher paying oilfield jobs.

The need for construction projects to extend services to customers requesting telecommunications services is growing exponentially. Building facilities to new locations is important for the co-op to grow its revenue base. NCC is continually looking for ways to find revenue to fund infrastructure

needs.

Most of the new businesses that have opened have done so due to the oilfield. Many of them need to communicate with a home office in another state and cannot conduct business without communication services.

With so many newcomers looking for places to live, communities in northwest North Dakota have been busy building townhomes, apartments, hotels and single-family homes. Virtually all of them want modern telecommunication services.

Higher crime is undoubtedly the most unwelcome "hitchhiker" that comes with rapid growth. In response to higher crime rates, NCC recently introduced a new line of security monitoring services. In addition to round-the-clock monitoring for break-ins, the co-op's security service can monitor temperature and carbon monoxide levels, and even detect fires or water leakages at a home or business.

Maintaining existing facilities

While striving to meet new demand for services, NCC must also continue to reinvest in its current plant and equipment. Portions of some cable lines that have been providing service for more than 30 years must be replaced in the near future.

NCC has replaced cable in a small portion of its service area with fiber-to-the-home (FTTH) service. FTTH brings a single strand of "glass" to each home, providing unlimited bandwidth, television service and telephone service.

NCC's plans for the next three years include replacing cable with FTTH in six additional areas of its service territory, at a cost of about \$10 million. Financing is being sought via a loan from the Rural Utilities Service of USDA Rural Development.

Demands on the co-op to locate and mark (with flags) its underground cable and fiber lines have been soaring due to the oilfield work and the large numbers of building contractors needing to dig in the area. Even after the co-op flags its underground lines, many times a contractor will delay a project, or



Workers operate an oil drilling rig in Divide County, N.D. Photo courtesy Journal Publishing Inc. Opposite page: A Northwest Communications Co-op cable truck evidences service being extended to another new development. Photo by Angela Schepp, courtesy Northwest Communications Co-op

change its plans. This may then require the co-op to send out yet another team to mark the lines again.

Even marked lines sometimes get cut by accident. Other times contractors get in a hurry and don't call utility companies first, as required. In North Dakota, they must call a state-maintained number, which in turn notifies all utilities in the area of the planned work. For some oil companies, it is actually faster and cheaper to cut cable or fiber lines, rather than to call and wait to have the co-op mark the lines.

When this occurs, it can interrupt service to co-op members and result in higher costs to the co-op. NCC has

thus had to make changes in some of its policies and fees to keep its members from absorbing the costs. These include:

- A 50-percent surcharge is being assessed for the time, materials and equipment costs to repair NCC cable/fiber lines that are cut.
- Calling the co-op a second time (or third time, etc.) to mark the same stretch of line (known in the trade as a "re-spot") is now being charged a minimum of one-hour flat rate, or for the actual time incurred. If excavation does not take place within the specified amount of days from the first marking, the site is required to request a re-spot.

- Cost for locating NCC underground lines are being billed at the co-op's actual hourly rate for "design only" jobs (meaning a contractor is working up a bid for a job, and thus needs to know where utility lines are located; excavation in these cases may never occur).

"In these and other ways, NCC is striving to keep pace with the increased demand for services," says co-op General Manager/CEO Dwight Schmitt. "While we like the potential for growth and welcome the opportunity to serve more customers, we must do so in a way that is beneficial to our cooperative members." ■

Co-op Development Action

USDA co-op funds leveraged to create resident-owned communities

By Sarah Pike

sarah@cedc.coop

Editor's note: Sarah Pike is an associate of CooperationWorks!, a national organization of cooperative development centers and practitioners. These co-op centers provide expertise across all aspects of co-op development, including feasibility analysis, business plan development, business launch and training for operational success. For more information visit: www.cooperationworks.coop.



Cooperative development centers continue to invest time and resources to build economic sustainability across rural America. Supported by USDA's Rural Cooperative Development Grant (RCDG) program, these cooperative development centers are further leveraging federal investments through collaboration. The result is multi-regional development capacity in several different economic sectors.

One recent example is the work of RCDG-funded co-op centers with ROC USA, a national nonprofit that provides certification and financial assistance to help convert existing manufactured home communities into resident-owned communities.

ROC USA's mission is to make resident ownership of good quality housing possible nationwide. "Our reason for being is to help homeowners gain economic security through resident ownership of their 'mobile home park,' or manufactured home community (MHC)," says Paul Bradley, ROC USA president. "We are focused on doing one thing really well and



doing it time and again for no other reason than to preserve and improve affordable communities and build value for homeowners in MHCs."

ROC USA achieves its mission "on the ground" by training and supporting regional nonprofits in completing co-op conversions. To date, at least three RCDG-funded centers have achieved the status of certified technical assistance providers.

New England co-op conversions

In the fall of 2009, the Cooperative Development Institute (CDI) became a certified technical assistance provider, covering the territory of Connecticut, Rhode Island and Massachusetts. CDI's starting budget consisted of the standard \$50,000 grant from the Corporation for Enterprise Development (CFED), a sponsor of ROC USA, \$10,000 of which CDI paid to the network to gain the needed training and materials.

"The support of both ROC USA and USDA has meant a great deal to CDI's success," Noémi Giszpenc,

executive director of CDI, explains. "Four of the five parks that we have converted to cooperative ownership have been in rural areas, which allowed us to use RCDG resources to pay for a portion of staff time and travel." That staff time has included the work of CDI's housing program manager, Andy Danforth, who has made a five-year commitment to the program, deferring his compensation until the program could cover his salary.

In its first two years, the CDI ROC program operated with \$30,000 annually of RCDG support through USDA. This was used to leverage about \$9 million in capital investment for resident ownership and improved infrastructure. As the number of converted communities in CDI's portfolio climbs, the ratio of RCDG support to program income will continue to drop, and the program will become self-sustaining as well as generate income for general operations.

"Our initial success has allowed us to expand into Vermont in 2011 and now Maine in 2012, supported by a \$60,000 two-year award from a local philan-

thropist,” says Giszpenc. The growth of the program has also led to job creation. The program staff has grown from the equivalent of one half-time position to three full-time employees, with the addition of two new part-time co-op organizers in the spring of 2012, she adds.

Midwest sees new co-ops form

Northcountry Cooperative Foundation, a recipient of RCDG funds from USDA and a ROC USA certified technical assistance provider, is converting rural manufactured home communities into resident-owned communities in the Midwest. To date, NCF has assisted five communities in Minnesota convert into cooperatives.

One example is Madelia Mobile Village Cooperative, in Madelia, Minn., a community of 2,300 in south-central Minnesota. The cooperative was organized by residents as a strategy to “take control of the community,”

provide for its improvement, stabilize lot rents and help residents create a platform for income- and asset-building in a resident-owned, manufactured home community.

The community was purchased by its residents in December 2008 for \$460,000. The state housing finance agency and a community-oriented lender provided the financing for the purchase.

At the time of purchase, about 75 percent of the households of Madelia Mobile Village had incomes at or below 50 percent of Watonwan County’s area-median income. The other 25 percent had incomes at or below 80 percent of the county’s area-median income. The community is made up predominantly of recent Latino immigrants.

Co-op conversions in Pacific Northwest

The Northwest Cooperative Development Center (NWCDC)

expanded its co-op development services in 2008 to include manufactured home communities. NWCDC joined the ROC USA network to leverage expertise and resources, including co-op financing, to help meet its customers’ needs.

“We really value the opportunity of working with ROC and our national network of colleagues,” says Ben Dryfoos-Guss, NWCDC’s specialist. “We are able to use well-tested processes and resources in our work with local residents, brokers and owners.”

In its first two years, the NWCDC ROC program operated with RCDG support of about \$25,000 each year. This was used to leverage about \$4.6 million in additional private and public capital investment for resident ownership.

To date, NWCDC has assisted three communities in successfully converting to nonprofit co-ops. One example is Hidden Village, in an unincorporated part of Thurston County, Wash. Through co-op conversion, NWCDC helped homeowners avert an imminent threat of community closure and homeowner displacement. Today, the community offers good quality, affordable manufactured homes for its predominately senior residents.

Stabilizing housing for seniors

The mission of the MSC Fund of the Cooperative Development

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Members of Sunrise Villa Cooperative in Minnesota — a resident-owned community that was assisted by the Northwest Cooperative Foundation — accept a commemorative gavel during the purchase ceremony for their manufactured home community. Opposite page: The Madelia Mobile Village in Madelia, Minn., where another co-op was organized to help residents take control of their community.



Capital Ideas

Lessons offered by dairy co-ops shed light on important equity capital issues

By Charles Ling, Ag Economist
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A cooperative faces many challenges in sourcing and maintaining an adequate level of capital for financing its operations. Being a cooperative, its equity capital is provided by members and is therefore dependent on members' willingness to support the cooperative's undertakings.

Members' equity retained by the cooperative represents a substantial sum of their money and competes with the capital needed for operating their farms. Most members therefore prefer to have as little of their equity retained by the co-op as

possible, and for a short equity-revolving period. Co-ops use a variety of means to redeem member equity in ways that meet both the needs of the co-op and its members.

When a cooperative's business is doing well, some members may perceive that its market valuation is higher than the book value and want to have access to the gain. This may stoke the pressure to "sell off" the cooperative or convert it to a public corporation.

To overcome these challenges and shore up an adequate equity level, alternative capital financing methods have been used by some cooperatives. These methods include: issuing preferred stock; accumulating (unallocated) retained earnings; capitalization using a "new-generation" cooperative model; and allowing non-member capital to be invested in cooperatives (which usually requires a change in state co-op laws).

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Equity financing issues:

FAQs

The experience of dairy cooperatives can serve as an example for answering some frequently asked questions (FAQs) regarding cooperative equity financing, including the following, grouped by specific financing alternatives.

Member equities

Question: Cooperative equities are furnished by members and therefore are limited. How does a cooperative gain access to capital without incurring long-term debt, without selling off the cooperative, or without going public in these situations:

- When the cooperative needs more capital?
- When members agitate to gain access to the perceived high market value of the business?
- When pressure mounts to shorten the equity-revolving period?

Answer: Members organize or join a cooperative to market their farm production. They should provide the cooperative with capital at a level that is commensurate with the functions they want the cooperative to perform and the benefits they want to derive from it.

If market value of the cooperative is higher than the book value, it means the cooperative's earnings and potential future earnings are higher than can be expected, given its level of equity capital. Members gain access to this higher earning ability by receiving higher pay prices, premiums and patronage refunds. Selling off the cooperative to gain the value of the business is tantamount to "killing the goose that lays the golden egg."

Eventually, it is up to members to decide if they want the cooperative to be viable or if they prefer other alternatives.

Preferred Stock

Question: What effects might issuing preferred stock have on a cooperative's practice?

Answer: Preferred stock may specify nearly any conceivable right for shareholders. What effects preferred stock may have on a cooperative's practice depend on what rights are specified. Preferred stock that pays dividends and has preference in assets over common stock in the event of the dissolution of the cooperative — the most common type of preferred stock — probably would not have any impact. If the preferred stock confers certain voting rights, the effect would depend on what specific issues the preferred stock-

holders are entitled to vote on.

Retained earnings

Question: Many cooperatives expand non-member businesses to accumulate retained earnings as permanent equity. What might be the long-term effects of this practice on governance?

Answer: Cooperatives may have non-member business for various reasons. In any case, retained earnings belong to the cooperative and thus are jointly owned by members. Disposition of retained earnings is at the discretion of the board of directors.

However, a marketing cooperative would not be conforming to the Capper-Volstead Act requirements if its non-member business were to exceed 50 percent of total sales. Moreover, by accumulating permanent capital, the cooperative may actually increase incentives for members to sell off the cooperative or convert it to a public corporation.

New-generation cooperatives

Question: Are new-generation cooperatives the answer to co-op financing issues?

Answer: A new-generation cooperative requires members to pay equity up front to acquire the delivery rights. While this attribute may address the issue of raising capital, the cooperative model introduces new issues, mainly relating to delivery rights and property rights (*Torgerson*).

Furthermore, many new-generation cooperatives are organized for business opportunities that resemble venture-capital investment. They tend to process one product or a narrow range of products. This presents additional risks as compared with a cooperative that is organized to market members' product(s) through a variety of marketing channels.

Outside (non-member) capital

Question: What changes in governance, organizational structure and practice may be brought about by the new cooperative laws enacted by some states that allow outside equity capital?

Answer: There is a large variation regarding voting power and earning distribution, etc., among the few state laws that allow cooperatives to have investors. Differences in governance and earning distribution rules will influence cooperative organizational structure and practice differently. It is better to analyze them on a case-by-case basis. Furthermore, not every cooperative newly incorporated under these state laws has outside (non-member) investors. ■



This article focuses on the equity financing practices of dairy cooperatives in the hope that it can help all types of co-ops better understand capital financing issues.

Dairy co-op equity capital

Just as for any other type of business, dairy cooperatives require an adequate level of capital to market members' milk. Besides bargaining (negotiating for milk prices and terms of trade), co-ops may have diversified operations, including: owning and operating milk-handling facilities, performing value-added processing, and/or providing milk marketing-related and other member services. Member equities are the source of capital to support these operations.

The four basic categories of dairy cooperative equity are:

- **Common stock** — Common stock of cooperatives is usually issued to prove membership, although it typically has only nominal value. Based on the complete financial data of 94 dairy cooperatives for the fiscal year ending in 2007, common stock only accounted for 0.1 percent of total equities. (All numbers cited in this article are 2007 data, the year of USDA Cooperative Programs most recent dairy survey (Ling, 2009). The survey is done every five years; new statistics will be available after data collection on dairy cooperatives' 2012 operations is completed.)
- **Preferred stock** — Some dairy cooperatives issue preferred stock, mostly to members to document retained patronage refunds or their additional investment in the cooperative. Preferred stock owned by members may be considered as allocated equities. In 2007, preferred stock was reported to be 7 percent of total equities.
- **Retained earnings** — Retained earnings can be derived from non-member businesses which, in most cases, are incidental to a cooperative's dairy operation. Retained

earnings may also include allocated equities that are not separately specified in the financial reports, net savings that are yet to be allocated, or earnings that are difficult to attribute to specific member transactions. Therefore, retained earnings that are not likely to be subject to allocation (or considered by some to be "permanent" equity) should be less than the 10.8 percent of total equities reported for 2007. In any case, retained earnings belong to the cooperative and thus are owned by members.

- **Allocated equities** — The 94 cooperatives surveyed reported that 82.1 percent of their equities were allocated to members. Allocated equities are members' capital from one or more of these sources:

Retained patronage refunds — Retained patronage refunds are net savings that are allocated to members based on patronage, but which are retained to finance the cooperative's operations after a cash portion has been paid to members.

Capital retains — Some cooperatives use capital retains to finance the operations or, more often, for special projects, such as building new plants. Money is withheld from milk payment at a certain rate per hundredweight of milk.

Members must treat patronage refunds (both cash and retained) and capital retains as income for tax purposes. Cooperatives usually revolve retained patronage refunds and capital retains back to members after a certain period of time.

Base capital plan — Some larger dairy cooperatives with diversified operations have adopted base capital plans to establish a more stable equity pool. Under such a plan, a target base capital level is set at a rate per hundredweight of milk marketed during a representative period. The base capital may be funded by retained patronage refunds and/or capital retains, or by other means of member contribution.



Once a member attains the prescribed base capital level, future patronage earnings allocated to the member are paid in cash.

In summary, almost all equity capital of dairy cooperatives is supplied and owned by members, including: common stock, preferred stock, retained earnings and allocated equities. By obtaining equity financing internally from members, cooperatives do not incur the cost of soliciting investment capital in the capital market.

Member loyalty is key

For an average member-producer delivering 3.1 million pounds of milk in 2007, total allocated equity retained by the cooperative was estimated at \$59,000 per member (\$1.91/cwt), quite a large sum of capital committed by individual members. (Because retained equities also include those yet to be revolved back to retired members and inactive (former) members, equities actually retained for active members should be somewhat less than this estimated amount).

Members must treat retained capital, when allocated, as income for tax purposes and pay taxes out of their own funds. Although the retains are revolved back to members as permitted by the cooperative's earnings after a few years, the present value of the retained capital is diminished because taxes on them have to be paid upfront and the revolving funds to be received in the future are discounted.

Members' perceptions and attitudes towards retained equities may vary with their respective membership status — active members, retired members or inactive (former) members — even though they all usually receive the revolved equities on the same revolving schedule, which is determined by the board of directors. These perceptions may include:

Active members — Active members may realize the necessity to adequately capitalize the cooperative's operations to ensure that their milk is effectively and efficiently marketed. Still, retained equities compete with capital needed for members' dairy farming operations, which is very substantial because of the type of inputs used and assets owned.

Members are usually supportive of a co-op's need for financing if the capital requirement is for the cooperative to carry out basic milk marketing functions. A cooperative may face some dissension if it attempts to invest in what some members consider to be extraneous businesses, unless they are convinced that the new ventures will:

- solidify the market for members' milk, or
- help market members' milk, or
- add value to members' milk, and
- benefit members the most among all available alternatives of investing the capital.

Retired members — Retired members may be content with receiving retained equities that are revolved on a steady, regular basis. They may consider such payments as something akin to retirement annuities. However, some may express dissatisfaction that no dividend is paid on the retained equities and the cooperative uses their capital free of charge — especially if the revolving period is long. If equity revolving becomes erratic — usually due to the cooperative encountering certain financial difficulties — they may become disgruntled.

Inactive (former) members — Inactive members may be farmers who have discontinued membership in the cooperative and made other milk marketing arrangements, or who have exited from dairy farming and transitioned into other farming enterprises or have discontinued farming

altogether. Conceivably, they are the least satisfied with equities being retained, because they may need the capital for use in other endeavors. As their loyalty to the cooperative has waned or becomes nonexistent, they may deem it meaningless to have the retained equity sitting idly (from their perspective) in the cooperative.

Equity financing alternatives

Some dairy cooperatives have tried alternative financing methods to leverage members' capital. Examples include: structuring subsidiaries as public stock corporations or as limited liability companies, entering into joint ventures with other firms, or organizing as a new-generation cooperative. A few have issued preferred stock, mostly to members.

Public stock corporation — There is one known case of a dairy cooperative converting its fluid business subsidiary into a publicly traded stock company. The idea was to use investor financing and stock as tools for expansion and growth, while members maintained the majority ownership of the business. However, in less than three years, the cooperative bought back all outstanding stock from minority shareholders.

It can be difficult for a cooperative to operate a public stock corporation subsidiary because there are fundamental conflicts between benefits for member-producers and investors' focus on returns on investment. In the dairy business, the conflict between producer milk pay price and profit for investors may be difficult to reconcile. Furthermore, with investor capital, the subsidiary and even the cooperative may lose Capper-Volstead status in inter-state commerce.

Preferred stock — A cooperative may issue preferred stock to raise more funds from members or to tap non-member capital. The most common type of preferred stock pays dividend and has preference in assets over common stock in the event of the dissolution of the cooperative. Some preferred stock may be considered as equity capital while others may look more like debt capital, depending on how the rights of the shareholders are specified.

Limited liability company (LLC) — An LLC is a state-approved, unincorporated association, just like a partnership except that it protects its owners and agents from personal liability for debts and other obligations of the LLC. Earnings pass through to the owners (there are no non-qualified retains) and enjoy single-tax treatment. An LLC may operate on a cooperative basis or it may allocate earnings and assign votes among its owners any way they want. Some producers believe that an LLC provides greater flexibility for tapping investor capital. However, the combination of producers and investors in an LLC would result in the same conflicting benefit issues as in a publicly traded subsidiary operated by a cooperative.

Joint venture — An LLC may be a useful model for established cooperatives to form joint ventures with other cooperatives or firms. On the marketing side, a joint venture

LLC may be used by a cooperative and its partner to develop and market certain dairy products. The cooperative supplies dairy inputs and the partner provides technical or marketing know-how to the LLC.

The joint-venture partners share the financing and the risk of the business activities of the LLC. This organizational model reduces the cooperative's capital requirement and risk exposure, while a market outlet for milk is secured. Many recent joint ventures formed by cooperatives with other business entities are organized as LLCs.

New-generation cooperative — Interest in the new-generation cooperative model surged in the 1980s and 1990s, largely in response to the market condition prevailing during that time. It was believed that this form of cooperative organization would solve the problem of depressed farm income by engaging in value-added processing.

However, the attributes of the new-generation cooperative model also have created some problems, mainly related to delivery-right and property-right issues (*Torgerson*). After the turn of the 21st century, interest in forming new-generation cooperatives has cooled down substantially.

A distinct feature of the new-generation cooperative is its equity financing method. It is unique even among cooperatives:

- It requires significant equity investment as a prerequisite to membership and delivery rights to ensure that an adequate level of capital is raised.
- The delivery right is in the form of equity shares that can be sold to other eligible producers at prices agreed to by the buyer and the seller, subject to the approval of the board of directors to satisfy members' desire of having the freedom to "cash in" on the hoped-for increases in the value of the cooperative.

Only one dairy cooperative is known to have been organized using the new-generation model. In 1995, a cooperative in South Dakota was established to make specialty cheese. But its remote location, the investment needed to renovate its plant and the skill required to make and market specialty cheese posed major problems. The new-generation model proved no help. It suffered the same fate as the struggling cooperative it was formed to replace and ceased operation four years later.

Purpose and Means

Dairy cooperatives are prime examples of the traditional model of a cooperative that is owned, controlled, financed and used by members. Focusing on the business of marketing members' milk, dairy cooperatives benefit members by enhancing returns to their milk production efforts; members supply equity capital needed for the cooperative to carry out its function as their collective milk marketing arm.

The cohesiveness between member purposes and cooperative functions makes dairy cooperatives, as a group, perhaps the most prominent agricultural marketing cooperatives. This is because milk is highly perishable and its

daily production must have an assured, ready market.

Most dairy farmers (84 percent of U.S. total in 2007) rely on marketing services provided by their cooperatives. It is for this reason that equity capital financing, in general, is not a contentious issue for dairy cooperatives if the funds are used for the core business of marketing members' milk. Dairy cooperatives are seldom used as a vehicle for investing in ventures that are unrelated to member business (Ling, 2011).

The close bond between producers and their dairy cooperatives may or may not be replicated in other agricultural commodity sectors, depending on the characteristics of the commodity and its market. Because no two commodities are the same, the needs of respective producers in marketing them also vary.

Cooperatives may be more essential to producers of commodities that have to be marketed shortly after being produced (such as vegetables, fruits and, of course, milk), or that have no ready market outlet other than the cooperative, than they are to producers of commodities that are storable and have a longer marketing season (such as grains and oil seeds) or that have multiple market outlets.

It stands to reason that raising or retaining equity capital is more challenging for a cooperative that is regarded by its members as but one of the competing market outlets for their products than for a cooperative that is indispensable to members.

It can be even more challenging for a farm supply cooperative that has to compete with other supply stores in the local market. There are hundreds, or even thousands, of supply items, and it is unlikely that the cooperative can be the best-value provider of every piece of merchandise. "Cherry-picking" by members in making purchases is inevitable. However, it is difficult to raise equity capital from members in this circumstance. (A food cooperative competing with other stores may encounter the same issue.)

Regional farm supply cooperatives may have economies of scale in product sourcing or in operating manufacturing facilities, especially for major supply items such as seeds, feed, fertilizer, chemicals, and petroleum products. They could pass along cost-savings derived from scale economies to members and thus better meet competition.

However, operating upstream manufacturing plants has its own risks (such as volatile raw material prices) that require the cooperative to have ample capital to cushion the shocks. The challenge for these cooperatives is to have a solid and broad membership base that sees the value of supporting the cooperatives with adequate equity capital.

All these factors point to the fact that the cooperative capital financing issue is really a reflection of a certain gap, or disconnect, between member purposes and cooperative functions. If this gap is narrow, it tends to be less of an issue; if the gap is wide, it becomes a more serious issue.

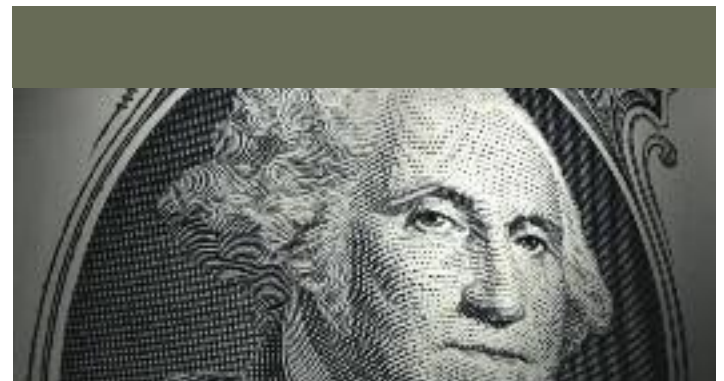
The solution to the issue lies in assessing what members want the cooperative to do and whether they are willing to finance it with equity capital in the amount commensurate

with the benefits they expect to receive from a cooperative that operate for members' best interests. In some cases, members may have to decide whether the cooperative is the most suitable business model for what they want to accomplish.

In recent years, the cooperative model has gained new attention from social entrepreneurs and economic development practitioners. Being owned, controlled and used by members for mutual benefits, cooperatives are an appealing tool to empower people to work toward their own economic destiny. They can be adapted to be community-based organizations to serve economic opportunity-deprived or service-deprived areas.

Because such cooperative organizations are formed to address public policy or social issues, it is appropriate to have initial capital funding assistance from public or philanthropic sources. Over the long term, however, they must be self-sustainable in order to be economically viable. Some exemplary precedents are rural electric cooperatives and the Farm Credit System.

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Focus On: Co-Alliance LLP

Partnership delivers returns for members of five co-ops

By Laurel Mann,
Communications Coordinator
Co-Alliance LLP



If it sounds too good to be true, it probably is.” We’ve all heard that warning. Jerry Werner, a farmer in LaPorte County, Indiana, certainly has.

But some things really do live up to great expectations. Case in point, says Werner, is Co-Alliance LLP (limited liability partnership), a progressive new co-op enterprise which is delivering numerous benefits to the producer-owners of its five member cooperatives.

Werner, a loyal member of several co-ops, and his son, Adam, farm mostly irrigated acreage near the small community of Union Mills. Several years ago, Werner and the other farmers who own LaPorte County Co-op were invited to join Co-Alliance LLP, now owned by Midland Co-op, IMPACT Co-op, LaPorte County Co-op, Frontier Co-op and Excel Co-op.

“Today, my farming neighbors and I are in a position where our patronage refund checks are significant,” says Werner. “Our equity is being redeemed more aggressively. We are offered competitive incentives to purchase seed.”

Through Co-Alliance, farmers have access to valuable proprietary technology. “That couldn’t have happened for us just a few years ago,” Werner says. “At first, we thought, this is too good to be true. But it is true,” he adds. Werner, like many farmers, is learning what the LLP business structure can offer their local cooperative.



Co-Alliance LLP is providing access to valuable proprietary technology and other benefits to the members of the five cooperatives that own it. Above is the Malden grain and agronomy facility in Porter County, Indiana.

Delivering return on investment

“Joining the partnership is one of the best decisions farmers here could have made,” says Werner, who now serves as board vice president of Co-Alliance. “We have a strong balance sheet. We are diversified. We are positioned well for the future.”

Almost immediately, local producers gained a higher rate of return on their co-op investment (and a higher return on equity) than before.

For the business year ending Aug. 31, 2011, Co-Alliance achieved \$1.01 billion in supply sales and marketing, had a net income of \$26.7 million and all five co-op members returned a record level of patronage — about \$10 million — to shareholders across Indiana, Ohio and Michigan.

Investing in future

More than 100 miles to the south, Kim Ames has similar feelings about Co-Alliance. Ames 4K Farm is a multi-generation/multi-family farming operation that has long been an active member of Midland Co-op. Ames’ family has seen many changes over the course of his farming career in Putnam County, Indiana.

One transition Ames fully supported was the first collaborative effort between the Midland and IMPACT cooperatives. Through their LLP, the two co-ops gained the strengths, resources and leadership talent needed to better serve customers and grow. The three other local co-ops soon sought to join the fold, resulting in the formation of Co-Alliance as a five co-op member business venture, of which Ames is board president.

As a result, Ames and other Putnam County farmers have seen significant investments being made to improve services and products — such as the new, liquid 28 percent fertilizer hub on a rail location not far from Ames 4K Farm. The facility is one of two hubs Co-Alliance operates. It is an asset Ames knows will help the company meet the demands of larger growers in the future.

When the partnership was initially proposed, Ames and other voting farmers did their research. They knew that the unique structure of a limited liability partnership offers some advantages over a traditional partnership or merger. That has proven to be true in this venture, he says.

Producers have seen the board and management team drive increased efficiencies, bring home more advanced technologies and represent local growers in negotiations, wielding the clout of a much larger organization.

“The definition of synergy is when cooperative action gains results which are actually greater than the sum of its parts,” says Co-Alliance CEO Kevin A. Still, who has more than 27 years experience managing local cooperatives. Still and John Graham, chief financial officer of Co-Alliance, were instrumental in developing and implementing the LLP business structure for the venture.

Guided by the board’s vision and the support of a talented senior management team, the five partner co-ops now market under one brand. That means five main offices, five accounting systems, five employee groups, five company cultures and five balance sheets and operating statements have been assimilated into one. Not an easy task, but one that has proven to be worth the effort.

New opportunities continue to be evaluated, including possible additional partners. “Our objective is smart growth — not to be the biggest, but to be the most efficient, innovative and locally invested supplier for area farmers,” Still says. “Size helps us ‘negotiate large’ with our suppliers, but our intent is to remain ‘small’ and local for each customer.”

Ames is pleased with the results he sees as a co-op customer and owner. “It is not difficult to convince someone to do business with our partnership today,” he says. “We are competitive.”

Retaining local control

In addition to a strong balance sheet and the ability to invest in the future, Clinton County farmer Dan Coapstick believes that the partnership structure offers a third significant benefit to farmers that traditional partnerships and mergers don’t: the retention of local control.

“The ag economy is strong,” Coapstick says. “As we push for growth,

we’re always mindful of the balance between doing what is good for growers in one area, and doing good for co-op members as a whole.”

His opinion is widely shared by the 7,500 farmer-members who continue to hold stock, vote and can serve as

Co-Alliance LLP fact file:

- Leadership: 40 directors representing five co-ops;
- LLP Leadership: 13 representatives from five co-op boards;
- Business units: Power fuels, propane, agronomy, grain marketing, swine/animal nutrition;
- Area served: Dozens of facilities in Indiana, Ohio and Michigan;
- \$1.01 billion supply and marketing sales;
- \$343 million in assets;
- \$26.7 million net income;
- \$10.6 million in patronage paid in 2012;
- 500 team professionals on staff.
- More than 54 million gallons of gasoline and diesel and 16 million gallons propane sold.
- 375,000 tons of fertilizer sold;
- \$44 million in crop protection products sold;
- \$37 million in seed sold;
- 59 million bushels of grain sold;
- \$96 million in feed and animal health products sold;
- 260,000 hogs marketed.

directors on the still-existing boards of the five partner co-ops. “The LLP structure keeps the best features of those partner co-ops intact and allows us to keep decision-making as close to the customer as possible,” says Still.

IMPACT Cooperative member-farmers in Coapstick’s area wanted to gain the efficiencies and economies of size and scope, but were independent enough that they also wanted to retain

local roots, local talent and local control, he recalls. Local growers understood they would receive representation and ownership in the LLP, based on the assets they brought into the partnership.

Income and patronage are distributed the same way, based on the proportion of ownership in the LLP. Simply put: when they vote to join the LLP, growers exchange 100 percent ownership of a smaller pie for the opportunity to own a piece from a much larger pie.

Lead, grow, give, remember

The synergies generated by Co-Alliance LLP are at work in 2012. According to Still, those synergies include significant economies of scale, risk management, diversification of business, employee expertise, information systems and capital access. The challenges ahead for Co-Alliance — as for any agribusiness supplier — include consolidation and competition, rapid technological advances, capital requirements, the need to recruit and retain excellent staff and the increasing regulation of the industry.

“When we began the LLP, we reduced our mission statement from a paragraph to just four words: Lead, grow, give and remember,” says Still. “In everything we do, we want to lead our markets, grow member profitability, give back in communities and remember our cooperative roots.”

The team at Co-Alliance continues to seek ways to add value to the relationships with the farmer. “The beauty of a co-op is that all advantages stay local. We serve the farmer, and we also invest locally as an employer; we pay taxes; we give time and financial donations; we’re good neighbors and good stewards,” Still says. “The beauty of the LLP structure is that it allows a farmer-owned co-op to do all those good things in the most competitive, effective ways. That’s why we created the LLP.”

For more information about this co-op partnership, visit: www.co-alliance.com. ■

Keep the co-op candle burning!

Candle graphic by Stephen Thompson



2012 International Year of Co-ops perfect time to gear-up co-op education

By Jim Wadsworth,
Education and Outreach Specialist
Co-op Programs
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***Editor's note:** This article updates and revises portions of an article that appeared in the March/April 2001 issue of "Rural Cooperatives." Many co-ops heeded the call to action sounded in 2001, but more still need to do so, and 2012 International Year of Cooperatives (IYC) is a good opportunity to strengthen co-op education and member relations.*

Younger members are not as loyal to the cooperative as they need to be."
"I don't feel that some

members fully appreciate what our co-op offers them in service and benefits compared to non-co-op businesses."

"Why should I support the co-op when it's really just like any other business?"

Sound familiar? Comments such as these can provide stark evidence that a cooperative's member relations need a tune-up, if not an overhaul.

When such perceptions become prevalent at a co-op, improved member relations through stronger education and communications efforts are a necessity. If a lack of loyalty and commitment becomes pervasive and is not adequately addressed, your co-op's future is not bright, regardless of where the markets go.

Without proper attention to member

relations, member loyalty will usually deteriorate over time. Under these circumstances, members' use, control and ownership of the co-op will slip. Most members need to be regularly reminded that they are the most critical asset of their cooperative, and that their cooperative is critical to their future success.

Even when the need for a strong member relations program is well understood by co-op leaders, too often it does not get the kind of resources or support needed to do the job. While some cooperatives are doing a terrific job with member relations and communications, others are struggling, allowing an environment to persist where members (especially younger ones) do not show the commitment to

their co-op as did previous generations.

2012 International Year of Cooperatives makes this the perfect time to step up to the plate and spread the word about your co-op and co-ops in general. Promote the member-ownership aspect of your business and the products and services it provides. Member pride and loyalty is most likely to swell if the impact of the cooperative business is seen and felt by many. Motivated members further instill that same pride and loyalty in others and a positive momentum spreads through the membership.

Pattern of “fall-off”

New cooperatives tend to have vigorous member relations, with member loyalty and optimism about their new business running strong in the early years. But this is an era of continuous economic and structural change in all business sectors. Many cooperatives are restructuring their operations (via mergers, acquisitions, joint ventures, and other strategic measures) to meet changing conditions. Some co-ops are seeking new business opportunities in increasingly complex domestic and global markets.

The bottom line is that many cooperatives have complex operations and/or serve expanding geographic areas. Under these circumstances, members may feel they lack local control. Other co-ops may have continuity in structure and operations, but still find themselves facing significant challenges. Whatever the case, it is common for members to feel disconnected from their cooperatives.

Many co-op leaders believe providing quality service and products is their best member relations tool. While essential, quality service alone isn't always enough to create cooperative loyalty. Given the intense competition they face, cooperatives must do more. They need to be more assertive in building member relations in other ways. If members become dissatisfied, the cooperative's future will be endangered.

Even if a co-op can't always

implement the suggestions of members, it is critical to let them know that they have been heard and that their ideas will be considered. For example, a member may want to know why the co-op can't open at 6 a.m. The member deserves a note or call back explaining that there simply isn't enough demand to justify opening prior to 7 a.m., and that the cost of staffing and “powering up” that early would lose money for the co-op and its members. A thoughtful response to customers is important for any business, but is especially vital for co-ops.

The more members feel they have a voice in the co-op through democratic control, the stronger their commitment will be. All members should be strongly encouraged to vote in board elections and attend the annual meeting. The creation of advisory committees or boards provide an excellent way for co-ops to gain a broader perspective of member needs and opinions while also forging stronger links with the members who participate on them.

Continuous effort needed

A good member relations effort should include:

- Communicating regularly with members (this is vital);
- Educating members about their co-op, its mission and co-op principles;
- Promoting the co-op continuously in many ways to enhance its image;
- Motivating members by talking about member responsibility, loyalty and the benefits of cooperation.

Effective communications channels are necessary in cooperatives for disseminating timely information to members, to educate, promote and motivate. Strong communication builds a cooperative connection to members. Cooperatives that talk to their members make them feel more connected and more apt to be loyal.

Communications with members should regularly include information about:

- The cooperative's background, objectives, organization and general operations.

- Cooperative principles and practices and the benefits that members receive from the co-op.
- Cooperative policies — especially when adopting new ones or changing old ones. Members must know why policies are being developed or changed and be kept apprised of how policies affect them.
- Co-op products/commodities — why they meet or exceed members' expectations, how they should be used and handled;
- Services — what's offered, what's new and how these services are designed based on member input;
- Cooperative plans — changes in operations, equipment, services and overall strategic direction.
- Future outlook — for business, the general competitive environment and for members.
- Cooperative finances — including sales, savings and losses; overall budgets and future financial plans; development of new products/services; and equity redemption plans.

Member communication can be accomplished through traditional means — including the annual meeting, local meetings, workshops, open houses, tours, newsletters, bulletin boards, informational leaflets and promotions. Today, communication is occurring more and more through electronic means: e-mail, websites and social media, as well as the long-established electronic media of radio and television. All methods are important and management, directors and employees need to take an active role in communicating with members.

No member should be left in the dark about important aspects of his or her business. Communicate with members in good and bad times. Help them understand their cooperative's unique principles and practices and remind them of their responsibilities in those respects.

Strong communications should be the foremost goal for improving member relations in cooperatives. Well-

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Newsline

Co-op developments, coast to coast

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



There was plenty of good news from 2011 for Organic Valley member-producers, such as Matt Fendry, who farms near Eau Claire, Wis. Record sales of \$715 million showed an increase of nearly \$96 million from 2010. Photo courtesy Organic Valley

Organic Valley reports record sales year

Organic Valley reports that its sales rose to a record \$715.6 million for 2011, a \$95.9 million increase over 2010, for an overall growth rate of 15.5 percent. The nation's largest organic co-op made a profit \$13.3 million, up from \$12.1 million in 2010. It also welcomed 212 new members in 2011.

Additional highlights discussed at the co-op's annual meeting in La Crosse, Wis., in March included:

- Recent completion of an expansion project at its headquarters in La Farge, Wis.;
- Construction is progressing on the Cashton Greens Wind Farm, Wisconsin's first community wind project;
- Launch of Organic Valley American Cheese Singles, unprocessed, 100-percent real organic cheese slices;
- Organic Valley Grassmilk, an organic specialty milk produced from cows that are 100-percent grass-fed.

USDA Deputy Secretary Kathleen Merrigan addressed the co-op's annual meeting, highlighting USDA efforts to promote organic agriculture. She discussed the Know Your Farmer, Know Your Food program and identified challenges ahead for the organic community.

"USDA is committed to helping organic agriculture grow and thrive by strengthening USDA's National Organic Program and better integrating support for organic producers across the Department," she said. "We also continue to support cooperatives, a business model that's been very successful for organic and other producers."



An artist's depiction of what Blue Diamond Growers' new almond processing plant in Turlock, Calif., will look like upon completion. Graphic courtesy Blue Diamond Growers

"2011 was a unique year of recovery after the previous recession years," CEO George Siemon says in the co-op's annual report. "We saw sales climb back up to pre-recession growth levels, which proves how vibrant the organic marketplace is. This increase in sales is driven by educated consumers, especially by women who are making lifestyle changes."

Siemon says the co-op's growth last year largely resulted from other pools of organic milk seeking membership. "Most of these groups brought markets with them as they saw the benefit of being part of a bigger pool of organic milk with diverse markets. Some of the groups that joined us were the LOFCO group from Pennsylvania last spring; 10 North Coast producers in Petaluma, Calif., in August; two groups of organic dairies in Oregon in late fall; and the Humboldt producers in December."

Survey: Americans rate consumer co-ops highly

A large majority of Americans, 72 percent, believe that consumer cooperatives — such as credit unions and rural electric co-ops — are "helpful to consumers." Only 11 percent say co-

ops are "unhelpful," according to a new national survey developed by the National Cooperative Business Association (NCBA) and Consumer Federation of America (CFA).

Nearly one-third of Americans (29 percent), say they belong to a consumer cooperative, the survey found.

"This survey illustrates that the 29,000 cooperatives in this country offer a much-needed alternative that consumers appreciate," says Liz Bailey, interim president and chief executive officer of the NCBA. "At a time when the entire business community is focused on demonstrating shared value and social responsibility, it's gratifying to know that Americans continue to place their trust in member-owned, democratically governed cooperative business enterprises."

Survey respondents rated consumer cooperatives more highly than for-profit businesses on a number of measures of quality and service. These include: running their business in a trustworthy manner; commitment to quality service; keeping the best interest of customers in mind; and offering fair, competitive prices, among other attributes.

"The Consumer Federation of America has long believed that cooperatives offer pro-consumer services and enhance pro-consumer competition in the marketplace," says Stephen Brobeck, executive director of CFA. "It is gratifying to learn from this survey that consumers agree with us."

A representative sample of 1,008 adult Americans was surveyed in April by Opinion Research Corp International (ORC). Consumer cooperatives are owned and democratically controlled by their members — the people who use the co-op's services.

For more details, visit: www.ncba.coop.

Blue Diamond begins plant construction

Blue Diamond Growers, a cooperative owned by more than half of California's almond growers, broke ground in April for a new manufacturing plant that will occupy an 88-acre site in Turlock, Calif. The first phase of the project is scheduled to be completed in May 2013.

The new plant will provide about 200,000 square feet of building space for manufacturing almond products that

are exported worldwide. The three-phased project will create about 500,000 square feet of building space over the next 15 years.

“There’s no doubt that Blue Diamond will bring numerous benefits to the Turlock community, including jobs,” says Mark Jansen, Blue Diamond president and CEO. Blue Diamond opened its last new plant in 1968 in Salida, just outside Modesto. At that time, California was producing 140 million pounds of almonds. This year’s crop is expected to come in at about 2 billion pounds.

“We have kept pace with upgrading new technologies in our plant operations over the last 44 years, but today we are celebrating the largest single investment in the 102 years of the almond industry’s existence,” Jansen said during the ground-breaking ceremony. The co-op will also soon complete work on a state-of-the-art research and development complex at its headquarters in Sacramento.

“I would like to thank our growers for entrusting their almonds to us to make this investment,” Board Chairman Clinton Shick added. “It will reap the largest incremental returns to almond growers who seek a secure future in the almond business.”

Banner sales year for sugar co-op; Contreras succeeds Wedgworth

After seven years of hurricanes, droughts and freezes, the Sugar Cane Growers Cooperative, Bella Glade, Fla., achieved a banner season this year, according to a report in the *Palm Beach Post*. The 46-member co-op harvested 3.1 million tons of sugar cane, one of the top five years in the co-op’s 52-year history. It produced 374,266 tons of raw sugar and 18 million gallons of blackstrap molasses.

A freeze the previous season devastated production, with the 265,682 tons of raw sugar produced being the second-lowest yield in the cooperative’s history, according to co-op spokesperson Barbara Miedema.

Cooperative President and CEO

Antonio Contreras said more than 10 new production performance records were set this season, including the highest tonnage of sugar cane hauled and processed in a day, and the highest overall recovery of sugar from the cane, the *Post* reported. While weather conditions were ideal this season, the cooperative’s members also farmed more land, growing sugar cane on 68,456 acres, up from 61,650 acres a year ago.

Contreras succeeded George Wedgworth as CEO in January. Wedgworth had been at the helm of the co-op, of which he was a founder, for 52 years. He remains as board chairman.

Wedgworth was credited as the guiding force behind the co-op, from its inception a half century ago to a “world-class, vertically integrated sugar cane operation that jointly owns the largest sugar refining company in the world,” according to John Hundley, co-op vice president and secretary-treasurer of the board. The co-op co-owns (along with West Palm Beach-based Florida Crystals Corp.) American Sugar Refining (ASR) Inc. in Yonkers, N.Y. ASR is the world’s largest cane sugar refining company, with global production capacity of 7 million tons of refined sugar annually. ASR brands include Domino, C&H, Redpath, Tate & Lyle and Sidul.

“From the novel idea of organizing the cooperative to overseeing its construction, the expansions and integration into the sugar cane refining business, George was the driving force,” Hundley says. “His leadership and legacy are the basic foundation of the cooperative, and will be carried out by the new leadership.”

Contreras had been serving as executive vice president for marketing and refining operations for the co-op. A native of Cuba, Contreras earned a BS in business administration from the University of Miami and a Masters in international marketing from the Thunderbird School of Global Management in Glendale, Ariz. Jose Alvarez has been named as chief

operating officer and general manager.

Jacobs to fill key co-op role at Iowa State

An Iowa State University faculty member has been appointed to a research and extension position focused on the economics of cooperatives and working with Iowa co-ops to address



Keri Jacobs

emerging issues. Keri Jacobs, an assistant professor of economics, will begin serving in the position on Aug. 15. Jacobs joined the ISU faculty in 2010 with interests in economics related to agricultural business, land-use decisions and agricultural policy.

The Iowa Institute for Cooperatives, which represents 150 cooperatives in the state, has expressed its commitment to support Jacobs’ research and extension program. The nonprofit association currently is undertaking a fundraising project with a goal of \$1 million.

“This is one of the most exciting periods in history for Iowa agriculture,” says David Holm, executive director for the institute. “Cooperatives play a significant role in Iowa agriculture and we enthusiastically look forward to working with Dr. Jacobs to address our members’ needs today and in the future.”

The cooperative economist position is similar to one held for 31 years by Roger Ginder, an ISU professor of



Flint Energies turns 75

Flint Energies, a user-owned electric cooperative serving central Georgia, is celebrating its 75th anniversary. The co-op received its charter from the Rural Electrification Administration (REA) on April 23, 1937.

"Today brings back a lot of great memories," Sr. Vice President Jimmy Autry said in April during an event marking the anniversary. "But the most important memory is that of members working together to create a lasting organization to meet their own needs."

From a modest beginning, serving just 90 members, Flint today has 240 employees and serves more than 84,400 meters. Flint's physical plant consists of more than 6,406 miles of distribution line and 50 substations to provide energy services to residential, commercial, industrial and agricultural members in parts of 17 central Georgia counties.

Like all cooperatives with such deep roots, Flint Energies has benefited from the dedication of countless members and staff. It is the people, after all, that define a cooperative.

One colorful example of the type of people it takes to build a successful co-op is mentioned in the co-op's history book: *"Flint hired Sam Hobbs, who worked with the construction contractor, as a service and maintenance man in February 1938. A little-known fact about Sam Hobbs, a gruff and crusty man, is that he had a heart of gold. Many times when going out to collect an overdue electric bill, he would find sickness or other trouble in the home. He would return to the office and pay the bill out of his pocket."*



Flint expects revenues to surpass \$190 million in 2012, and through their elected board, the members now direct a corporation with more than \$300 million in assets.

"What really sets us apart is our payment of capital credits," Autry said. "They are the retained margins left over at the end of each year and are the most significant source of equity for most cooperatives. Capital credits are somewhat similar to the dividends that investor-owned utilities pay to their shareholders.

"The difference is that the cooperative's 'shareholders' are also the people that it serves and the 'dividends' (capital credits) are distributed to those member/consumers. Capital credits reflect each member's ownership in the cooperative," said Autry. "Flint has paid back to its members every dollar of patronage earned from our first day in 1937 through a portion of 1984."

Flint is the eighth largest of Georgia's 42 electric co-ops and ranks as the 36th largest of the nation's nearly 1,000 rural electric cooperatives. ■



Part of a shipment of 1 million eggs is loaded onto a truck for distribution to a number of community food banks around the nation. The eggs were donated prior to Easter by Moark LLC, a Land O' Lakes subsidiary.

Moark donates 1 million eggs

Moark LLC, a Land O'Lakes subsidiary, donated more than 1 million eggs to nine food banks across the United States in time for the Easter holiday. For the fifth year in a row, egg producers have teamed up with Feeding America's network of food banks in the fight against hunger.

Moark's contribution marks the second egg donation in the third year of the First Run program. As part of the First Run program, Land O'Lakes and its subsidiaries have committed to donating truckloads of fresh product to food banks quarterly to help alleviate hunger nationwide.

"As a national, farmer-owned cooperative, Land O'Lakes is committed to helping the growing number of people struggling to put food on their tables," says Land O'Lakes Foundation Executive Director Lydia Botham. The First Run program is part of Land O'Lakes' larger Feeding Our Communities initiative – a program dedicated to helping alleviate hunger locally, nationally and internationally. ■



economics who retired in 2010. Ginder was a nationally recognized expert in cooperative finance and strategic management.

In her new position, Jacobs will focus on the role of cooperatives in the evolving industrial organization of: agricultural markets; vertical integration; innovation and product development; contracting; ownership, control rights and governance structures; organizational strategies; finance and the equity structure of cooperative firms; regulation and taxation of cooperative entities; and risk and risk-sharing in commodity markets.

Jacobs, a native of Monticello, Iowa, earned a doctorate in economics from North Carolina State University and bachelor's degree in business administration and economics from Coe College.

AMPI reports \$2 billion in sales

Associated Milk Producers Inc. (AMPI) says that staying focused on maximizing members' returns helped it achieve positive results in 2011. Leaders announced at the co-op's annual meeting in March that the dairy marketing cooperative, owned by 3,000 Upper Midwest dairy farmers, achieved sales of \$2 billion last year.

Although weak milk volume challenged all dairy manufacturers in its region last year, the cooperative's diversified manufacturing network increased returns in key areas. "Our cheese-packaging plant in Portage, Wis., and the New Ulm, Minn., butter plant contributed stellar returns to the bottom line," AMPI President and CEO Ed Welch told some 400 delegates and guests at the meeting in Bloomington, Minn.

The 2011 performance marks the fifth consecutive year of growth in both consumer-packaged butter and cheese. The cooperative's butter business increased 22 percent and packaged cheese sales climbed 43 percent in five years.

Operational highlights include:

- A \$7.5 million investment was made

to purchase and install 18 technologically advanced cheese vats to improved production efficiency and cheese yield.

- The co-op's three consumer-packaging plants all achieved Safe Quality Food certifications; all 12 plants will have the designation in 2012.
- For the third consecutive year, the number of members earning the AMPI Milk Quality Award increased. More than 450 producers received the award for consistently achieving the cooperative's high milk standards.

USDA rural-sociologist receives honor

Thomas W. Gray, Ph.D., a rural sociologist with the Cooperative



Thomas W. Gray

Programs office of USDA Rural Development, received an award for outstanding service from the Southern Rural Sociology Association (SRSA) on Feb. 7, at the association's annual meeting in Birmingham, Ala. Gray has held a series of offices in the organization, most recently serving as president.

SRSA is a professional social science association oriented to enhancing the viability and quality of rural life, communities and the environment in the South and to encourage similar

work nationally. The organization is inclusive of other social sciences and includes practitioners at the university, community, government, and non-government organization levels.

Gabriel new chief economist at FCA

The Farm Credit Administration (FCA) has appointed Steve Gabriel as associate director of the Agricultural and Economic Policy Team and as FCA's chief economist. He succeeds John Moore, who retired after 40 years of federal service.

"FCA has benefited from Steve's knowledge, skills and experience for many years," says FCA Chairman and CEO Leland A. Strom. "And I know that he will provide outstanding leadership as the agency's chief economist."

Before his appointment, Gabriel served as a senior financial analyst and program manager for systemic risk analysis in the Risk Supervision Division of FCA's Office of Examination. He began his federal government career as an agricultural economist at USDA's Economic Research Service. He joined FCA in 1989, leaving it in 2000 to serve for six and a half years as a senior financial economist at the Federal Deposit Insurance Corporation. He came back to FCA in December 2006.

Gabriel has a B.A. in economics from Loyola University of Chicago, an M.S. in finance from the University of Illinois and a Ph.D. in agricultural economics from the University of Illinois.

The FCA is the safety and soundness regulator of the cooperative Farm Credit System and the Federal Agricultural Mortgage Corporation (Farmer Mac). It charters, regulates and examines the 95 banks, associations, service corporations and special-purpose entities of the Farm Credit System, which makes loans to agricultural producers and their cooperatives nationwide. ■

Keep the co-op candle burning! *continued from page 39*

informed members are usually more loyal to their cooperative.

Education efforts should focus on cooperative principles, practices and benefits. “Education is a social process Education is growth.... Education is not a preparation for life; education is life itself.” Those words of philosopher and theorist John Dewey, convey that education is a vital lifelong process. Education is the lifeblood of a cooperative and must be a continuing priority. Members use, control and benefit from their cooperatives. They need to be reminded of it and hear it regularly.

While co-op members are the most important “audience” for co-ops to communicate with, the general public — especially the young — should also be communicated with on a regular basis. Creating a favorable impression of your co-op in the community can pay huge dividends for the co-op the next time you are seeking community support for a project, such as for a change in a zoning classification or a new business permit needed for a facility expansion.

Directors need to be educated on

understanding financial statements and many other important aspects of the co-op business to successfully meet their responsibilities. Organizations such as the National Council of Farmer Cooperatives and state co-op associations conduct excellent director-training programs that co-ops can take advantage of. Cooperative employees also should be well-schooled in cooperative principles and should understand that they have a role to play in improving member relations

Members can also serve as co-op educators, talking to new or potential co-op members about the benefits they receive from membership. They can talk to students, including their children’s classmates and friends, about what a co-op is and what they do for their members and communities.

Some co-ops (such as Cabot Creamery/AgriMark, Organic Valley and Florida’s Natural, among others) have tailored their regional and national advertising efforts and/or packaging to highlight the fact their company is “farmer owned.” Marketing studies have shown this message resonates with consumers.

Not “just another business”

The United Nations-declared 2012 International Year of Cooperatives is an

exciting opportunity to communicate with members and the public about your co-op – why it is special and not “just another business.”

Keep the co-op candle burning brightly. If your member relations and promotion efforts are flickering or have even gone out, it is time to re-light them. Communications must be a core function of every cooperative.

If as manager or director of a medium or small co-op you don’t have time to focus on communications as much as you should, consider adding a staff communications specialist or designating a staffer to spend at least half their time on communications and education. If the co-op is too small for even that, consider using the services of a public relations firm that works with co-ops, or forming a member committee that can develop some communications or promotion projects.

For more ideas about promoting co-ops during IYC, visit: <http://social.un.org/coopsyear>. The Cooperative Programs of USDA Rural Development can also provide co-op education publications for hand-outs. See pages 22-23 of this issue for a few ideas, and visit: www.rurdev.usda.gov, then follow the “cooperatives” links. ■

A taste of gold *continued from page 19*

makers agree that producing a top cheese is both a science and an art, not unlike producing fine wine.

While winning first prize is a great honor, Davis says for Cabot the main goal is to consistently make a strong showing. “You aren’t going to always win the blue ribbons, but we want to make sure that our cheeses are always in the hunt.”

The awards are usually displayed by co-ops in places where the public and/or employees can view them all

year. Cabot, for example, will put its awards on display at the Cabot Creamery Visitor Center in Vermont, which attracts a heavy flow of tourists.

“The members love it when their cheese wins a prize — it’s a great source of pride on the farm,” Davis says. “They know you can’t make great cheese without great milk, and that all starts on their farms.”

Among the states, Wisconsin was tops with 30 gold medals, while New York was second with nine gold medals. California and Vermont each earned three golds, while Idaho and South Dakota earned two gold medals each. Illinois, Indiana, Iowa, Minnesota, Ohio and Utah each took home one gold

medal.

The FrieslandCampina cheese factory in Steenderen, Netherlands, emerged from the Sweet 16 with the overall top prize for its Vermeer semi-soft, reduced-fat cheese, which earned a score of 98.73 in the final round of judging. First runner-up, with a score of 98.55, was Winzer Kase, a smear-ripened, semi-soft cheese made by Kaserai Grundbach in Wattenwil, Switzerland. Second runner-up was Appenzeller Kase, made by Karl Germann, of Appenzell, Switzerland, which scored 98.34.

The winning cheeses in the contest were auctioned off, raising \$140,000 for charitable causes. ■

Co-op Development Action

continued from page 29

Foundation is to find cooperative solutions to the issues facing senior citizens in rural America. In many communities, senior citizens make up a majority of the residents in manufactured home parks. They are particularly vulnerable should their parks be put up for sale.

Since 2006, CDF has granted more than \$230,000 to support technical assistance for co-op conversion work by organizations such as ROC USA, the New Hampshire Community Loan Fund, Rural Community Assistance Corporation, and the Twin Pines Foundation.

“Our recent grants to ROC USA have been particularly effective,” says Kevin Edberg, a member of the

advisory committee for the MSC Fund. “ROC re-grants funding to certified technical assistance providers (CTAP)

that are in the process of finalizing deals, helping to push those projects over the finish line, resulting in new co-ops and dozens of new units of co-op housing.”

CDF hosted a forum in March, “Cooperative Solutions for Affordable Rural and Senior Housing,” to shed light on the importance of converting rental communities to housing cooperatives in order to achieve financial stability, especially for rural seniors. Speakers included Judy Canales, administrator for the Rural Business-Cooperative Programs of USDA Rural Development; Terry Simonette, president and CEO of NCB Capital Impact; Stacey Epperson, president & CEO of Next Step; U.S.

Representative James Clyburn of South Carolina, and Mike Sloss, managing director of ROC USA Capital, among others. For more information about the forum, visit the Senior Resource Center section of CDF’s website: www.cdf.coop.

The partnership between the ROC USA network and the nation’s cooperative development centers is proving to be an effective one. Bradley explains that “co-op development centers really get both the organizational development and the business development aspects of our work.”

Cooperative development centers, RCDG funding and ROC USA all play essential roles in promoting cooperative housing development. By combining the skill and financial resources they each offer, and continuing to identify new partners and leverage additional funding, a stronger, thriving rural America will emerge. ■

Now Available

“The Nature of the Cooperative” is a collection of five articles reprinted from *Rural Cooperative Magazine* that examine cooperatives and their place in our free-market economy.

Author Charles Ling explains co-op economic structure, theory and practice, as well as the economics of cooperative marketing and co-ops’ relationships with other market participants through their roles in transaction governance.

Available as hard copy or online. For hard copies, email coopinfo@wdc.usda.gov. Request Publication CIR 65 and indicate quantity needed. Or call: (202) 720-8381. Or write: USDA Co-op Info, Stop 0705, 1400 Independence Ave., SW, Washington DC 20250.

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The Nature of the Cooperative
A special issue of Rural Cooperative Magazine

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