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The Cooperative Renaissance: Empowering Producers
in an Era of Greater Risk

Robert Carlson

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By Robert Carlson,
President of North Dakota Farmers Union

Farmers' interest in forming new processing cooperatives began in earnest in the early 1990's spurred by several developments that threatened traditional operating methods. Low commodity prices and the prospects for reduced federal farm program support turned producers' attention toward new ventures as an economic survival response. New trade agreements increased competition and threatened to reduce prices for wheat and livestock producers. Meanwhile, vertically integrated corporations were expanding factory style farms in poultry, hog, and potato production.

It became evident to the members and leadership of the National Farmers Union and its affiliated state organizations that family farmers and ranchers would need a self help strategy to diversify and stabilize their income. A key element of the strategy is to foster the development of farmer-owned enterprises that allow the producers of raw agricultural commodities to gain the economic benefit of processing, wholesaling, or retailing a food item.

North Dakota farmers and Minnesota farmers originated the cooperative renaissance and were well suited to lead it. Northern Plains farmers have a strong cooperative heritage and are familiar with cooperative businesses. In addition, the high risk of production agriculture on the arid plains demands that producers have a safety net or some other income to cushion steep drops in production or prices. The phenomenal success of the Crystal Sugar Cooperative in the Red River Valley provided a positive example of what value added processing could do for farm income. Finally, the North Dakota Legislature established a fund called the Agricultural Products Utilization Commission to help finance feasibility studies of various new ideas. Although most of those ideas did not go beyond the study stage because they did not offer enough financial reward to justify the farmers' investment risk, some bore fruit.

Several new cooperatives that began operating in the mid 1990's are very successful. They include the Dakota Growers Pasta Company, the North American Bison Cooperative, and two hog farrowing cooperatives. Two major corn processing cooperatives have recently formed alliances with private companies.

It is difficult to make accurate generalizations about these new cooperatives. But there are some unique advantages that the successful processing cooperatives have in common. Perhaps the most important advantage is improved quality control because of the relationship of the producer owner to the processor. The producer provides the product and the identity of the raw commodity can be preserved right through to the final processed product. The producers takes pride in their product and that motivates them to provide the best quality commodity to their new cooperative. But, perhaps more importantly, the producer is under contract to provide a specific quantity and quality to the processor. This identity preserved connection from producer to finished product is unique to farmer owned cooperatives and it is often envied by private industry.

Quality control advantages enable cooperatives to fill the niches in a huge consumer food market of over \$705 billion. In this huge market, compare the return on equity between farmers and food companies. The farm value of raw commodities has not changed much since 1970, but the retail

value of food has multiplied.

The average US farmer's return on equity is 2%; for US food companies it is 14%. Given these economic returns, it is not surprising that farmers are beginning to recognize the great opportunities in value added agriculture.

The owners of the new cooperatives are farmers who recognize that the food business does not begin with what they produce. Rather, it begins with what consumers choose to purchase. These consumers are demanding new products, greater variety, and more choices. There are around 15,000 new food products introduced in the US each year. Many fail, but the point is that the food industry is a very large and dynamic market that offers potential for new cooperative ventures if they can be capitalized and managed and marketed successfully.

A 1996 North Dakota State University study comparing farmer investors and non investors in new cooperatives found that the investors were motivated by the desire to increase farm income, reduce marketing risk, gain access to value added markets, and gain a consistent market outlet. The investors were also, on average, younger, more educated, farmed more land, and had more assets and debts than the non investors.

The new cooperatives need five essential elements for success. The seed is the idea for a venture that is bigger than the individual can undertake alone. The idea then needs to be studied carefully and dispassionately by the most competent firm one can employ. The most critical questions to answer in the study are: Where is the market, where are the members, and what is the probable return on equity?

The greatest challenge is to find enough farmer investors to adequately capitalize the new cooperative. These are generally farmers who are willing to take a new risk and who have some understanding of cooperative business. Lenders are nearly always required, and, if they are experienced cooperative business lenders, their advice and counsel can be tremendously valuable to the new venture. USDA cooperative development grants and loans, such as those delivered through the Rural Electric and Telephone Cooperatives, are important aids in the struggle to adequately capitalize a new cooperative. Rural Development Agency grants to value added cooperative initiatives have enabled several new farmer owned ventures to begin formative steps.

Finally, the new cooperative needs talented management with the ability to run a business wisely and efficiently as well as the ability to communicate with the farmer owners and the board of directors. That often involves an element of luck in the selection of the general manager or CEO. If the business is not adequately capitalized to sustain two or three years of initial operating losses, then the co-op is dangerously vulnerable to failure.

The future for farmers and ranchers certainly appears to hold greater risk. If our future lies in being the world's lowest cost producers by reducing our production costs and by becoming more competitive--a euphemism used in agriculture to mean lower priced commodities--then our future is rather bleak. A much more appealing and productive vision lies not in lowering ourselves to world agriculture's lowest common denominator, but in finding new ways to diversify and stabilize family farm income so that producers can weather the volatile commodity prices that will accompany the so called market driven farm economy.

The value added cooperative vision for agricultural producers also involves risk, but it is a risk that the farmer can control by determining their level of investment. More importantly, it is a financial risk that offers a reward in annual family income and in an improved asset section of the balance

sheet. When new processing facilities are located in rural communities, there is additional value added through new jobs.

Farmers have always built cooperative businesses to gain an economic advantage for themselves. They feel the need to try to take greater control over the economic forces that impact their income and expenses and their lives. Farmers today face greater exposure to variables in prices and production; we are more vulnerable financially than we were in the recent past. The new cooperatives represent the best in self help initiatives to empower our agricultural producers in the 21st century.