

Rural COOPERATIVES

USDA / Rural Development

September/October 2003

Apples & Oranges:

pg. 4 - Sunkist's new global strategy

pg. 6 - Why apple growers value co-op

Shaping tomorrow's cooperatives today

In the past few years, some large and well-known farmer cooperatives and other smaller ones have been forced into bankruptcy. Although these business failures do not compare in scope and impact to other businesses that have failed in other sectors of the economy, and despite the fact that the great majority of all cooperatives are healthy businesses, the failures naturally draw attention to the role of farmer cooperatives in rural America. These cooperative failures, however, require a new look at the vitality and flexibility of cooperative businesses in today's global, dynamic economy.

In response to challenges, we must try to understand what makes cooperatives particularly strong organizations and yet susceptible to economic stress. As in any business, a search for causes of failure leads in several directions. We must look at both successes and failures, and then carefully identify problems and devise solutions.

Some observers have identified cooperatives' restricted sources of capital as a subject of concern. Cooperatives depend on member equity for the capital needed to make the investments required of successful businesses. The concern is that farmers and other rural residents, who benefit from strong cooperatives, often lack the assets to make the investments for needed improvements. And even if they are able to invest, they are discouraged from doing so by a capital structure that often makes it difficult for them to get their money back and does not provide the opportunity to realize a capital gain on their investment. Investments in a cooperative compete with those needed for members' own farming operations.

Capital requirements are nearly universal among all businesses and some would argue that cooperatives for the most part are in no worse position than other businesses. They point to the many successful cooperatives, ranging in size from national marketing entities to local farm supply stores, that are doing just fine. They argue that outside investors will take over cooperatives they fund and undermine the cooperative's reason for existing: to benefit patrons on the basis of use rather than investors on the basis of investment. They further respond that farmers and other member-users have the resources to fund their cooperatives and will do so as long as they believe the associations will meet their needs.

In the years ahead, cooperatives, like much of rural America, will face serious challenges. The companies they buy from and sell to are becoming larger, fewer in number and more sophisticated at passing costs and risks off onto others in their lines of business. Innovations in areas such as biotechnology, information services and transportation are making cooperative facilities and equipment obsolete. Foreign countries are using our technology to become lower cost producers of the same basic farm products we produce in rural areas. They are becoming competitors rather than customers.

As farmers and rural residents respond to these and other challenges, it is safe to assume that some of them would benefit from cooperatives with additional equity. This applies whether they are starting a new cooperative or broadening the services of an existing one. For example, one strategy for protecting and enhancing rural economies is

for producers to engage in value-added processing and marketing of the products they produce (selling pasta rather than wheat, ethanol rather than corn). In this way, farmers and rural communities capture the returns of the entire process rather than settle for commodity sales. The facilities to do the manufacturing and the people needed to operate the plants and market the products will take money. The as yet unanswered question is, "Where will the money come from?"

As in any business, equity capital will only be made available if an equity holder realizes returns justifying the capital investment. Cooperatives, too, must produce net income and generate benefits to members as a return for the equity invested. Member equity in the cooperative is built from member investments directly and through retained refunds, the cooperative version of retained income that provides most of the equity for other businesses. This type of equity has funded most cooperatives, including many value-added operations with high capital requirements.

It is time to explore, with objective thoughtfulness, other possible sources of equity capital for cooperatives. A few cooperatives have taken this approach. Cooperatives can, and do, offer non-voting preferred interests. Recently, a large regional farmer cooperative sold \$90 million in non-voting preferred stock that pays a dividend of 8 percent per year. The shares are publically traded and listed on the NASDAQ stock exchange. While this means a sizable portion of the cooperative's future earnings will go to investors based on investment, few will challenge the "cooperative" nature of the association.

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For the first time, Sunkist Growers is putting its brand on some foreign-grown fruit in order to better meet market demand for a year-round citrus supply. Story on page 4. Orange photo courtesy Sunkist. A new study that compares the apple markets in Michigan and New York shows how growers in the former benefit from the existence of a bargaining cooperative. Story on page 6. Apple photo by Ken Hammond, USDA



New global strategy

Year-round citrus demand has Sunkist tapping foreign market supplies

By Claire Smith
Sunkist, Public Affairs Director

Faced with mounting competition from lower cost offshore citrus and increasing customer demand for specialty varieties and year-round supplies from customers, Sunkist Growers has begun sourcing fruit from foreign producers. This step is being taken to strengthen its leadership position in the evolving global marketplace.

This summer, Sunkist began importing citrus from offshore sources to complement the citrus produced by its 6,000 grower-owners in California and Arizona. Lemons and grapefruit from South Africa and Chile bearing the Sunkist label are being shipped to Japan and Hong Kong, where sales of the cooperative's first non-U.S.-grown fruit is being test-marketed.

Customers demanding year-round fruit supply

While the decision to handle foreign fruit was not an easy one, maintaining its position as the fresh citrus market leader meant Sunkist had to respond to its customers' demand for a single, year-round supply of citrus. "We had no choice," says Jeff Gargiulo, Sunkist's president and CEO. "We operate in a global marketplace. U.S. politics promote it; economists support it; retail customers demand it; and consumers want great citrus, year round.

"Sunkist has always been supportive of liberalized trade," he continues, "but

the free-trade agreements we're seeing now are one-way streets, benefiting foreign producers, but not American growers."

Almost half the produce sold in the United States today is grown outside its borders. American producers face increasing competition as the domestic markets are opened to more imports. Those low-cost products, entering virtually duty free, put American producers at a substantial competitive disadvantage, says Gargiulo.

Sunkist lemons grown in California and Arizona, for example, command about \$16.50 per 40-pound box wholesale, while lemons transported from Chile earn about \$13.50 per box. The major reason for the difference is the average hourly cost for farm and packinghouse labor. In Chile, it's less than \$1 vs. \$16 in Sunkist country.

Couple this increasing domestic competition with stagnant export opportunities due to foreign tariff barriers, and American fresh citrus growers face enormous competitive challenges.

"Our customers tell us they are going to buy the best product for the lowest price, and they don't care where it comes from," Gargiulo says.

Category managers

Today's large, international retailers require a comprehensive package of services. To increase efficiency, they want their suppliers to become 'category managers' and to meet all their needs for a specific product area.

While Sunkist's 6,000-plus members own more than 175,000 acres of groves



Photos courtesy Sunkist

across some of the richest agricultural land in the world and harvest a variety of citrus, they are limited by seasonality. “Our customers expect us to provide all kinds of citrus all year-round,” said Gargiulo. “With this change, Sunkist is acknowledging that our growers can’t always supply what our customers want.”

The changes being made at Sunkist are evolutionary, not revolutionary. Over its 110-year history, Sunkist has continually analyzed its processes and implemented ways to compete more effectively in a changing marketplace. It has developed a comprehensive, worldwide marketing strategy, and now it will source product where the market demands, where the opportunity exists and, in the end, return the profits to its grower-owners.

Sunkist is currently formulating an operational structure and exploring different options for offshore sourcing. The final organization could involve partnerships, export/import subsidiary companies or licensing agreements. Arrangements may differ from country to country.

Vigorous internal debate

“Would we rather not have to make the change? Yes,” says Gargiulo. “Do we feel we have a choice? No.”

During the past decade, Sunkist and its growers have vigorously debated “going global.” The Sunkist name is on hundreds of licensed products such as juices, beverages and confections in 45 countries. However, except for some short-lived experiments, it has sold only the fresh citrus produced in the United States by its grower-members.



Sunkist CEO Jeff Gargiulo says the co-op would have preferred not to start branding foreign-grown fruit, but felt it had no choice given market trends.

This new marketing strategy may also enable the cooperative to recover its prominence in the European market, where the Sunkist name is still highly regarded but where the European Community’s tariff practices and high transportation costs have kept its citrus out. Sunkist will soon be in a position to overcome those obstacles and outsource fruit into that market under the Sunkist name.

The change, though long in coming, was inevitable, says Gargiulo. Export sales began reflecting the effects of high-quality, low-cost foreign competition on Sunkist’s share of key Asian markets. Domestic sales reflected the retailers’ growing interest in exotic new items and their use of imports to bring year-round supplies to American consumers.

In today’s global marketplace, noth-

ing is “out of season.” Consumers can now choose from among more than 600 produce items available every day, all year long. Now that consumers are used to the variety and availability of foreign fruit, Sunkist has little choice. If it doesn’t market it, someone else will, says Gargiulo.

While the imports will increase the cooperative’s revenues at certain times of year, they will no doubt also compete with California and Arizona citrus. Sunkist’s western-grown Valencia oranges already share shelf space with Australian-grown navels during the mid-to-late summer. And Sunkist’s western-produced navel oranges already face heavy competition from imported Spanish clementines during the winter. The only difference is that now the Australian and Spanish fruit might also be wearing the Sunkist name.

Inevitably, some traditional growers will be unhappy. The bottom line, however, is that those Australian navels and Spanish clementines are going to be in the markets anyway. It is to Sunkist growers’ advantage, Gargiulo says, if their marketing cooperative can exert some management control of the situation. By teaming up with quality foreign producers—instead of trying to compete with them—Sunkist believes it can benefit its grower-members.

The key to Sunkist’s future lies in the broad base of its marketing strength and its ability to be the kind of supplier with the fruit varieties and the kinds of services today’s retailers demand. In addition, Sunkist has the strength of its brand, denoting quality, value, health and safety to consumers worldwide.

As a cooperative, Sunkist’s charge has always been to sell the fruit its members grow today. In the long term, however, Sunkist must ensure that it has the opportunity to sell its growers’ fruit in the future. “But as the market changes and the produce industry evolves,” Gargiulo promises, “Sunkist will never forget who it works for.” ■

Apple industry study shows value of producer bargaining associations

By Shelly Grow, Henry A. Wallace Center; Amy Guptill, Cornell University; Thomas A. Lyson, Cornell University; and Rick Welsh, Clarkson University

Editor's note: This article is based on "The Effect of Laws That Foster Agricultural Bargaining: The Case of Apple Growers in Michigan and New York State," available electronically at www.winrock.org/GENERAL/Publications/AgBargfinal.pdf. For a printed copy, contact the Wallace Center, (703) 525-9430, ext. 675. The study was funded by a grant from the Rural Business-Cooperative Service of USDA Rural Development.

An agricultural bargaining association can provide better prices and other important benefits to its members, according to a new study of apple growers in two states. The study was conducted by researchers at the Henry A. Wallace Center for Agricultural & Environmental Policy at Winrock International, Cornell University and Clarkson University.

Apple grower-members of the Michigan Agricultural Cooperative Marketing Association (MACMA), a bargaining cooperative, indicate higher levels of satisfaction compared to non-MACMA members and to New York growers, which does not have a state collective bargaining law. The study found that MACMA, on average, has negotiated higher apple prices for Michigan growers. This price differential, however, appears to be diminishing over time due to intense competi-

tion, particularly from international markets.

Mich., N.Y. laws contrast sharply

To establish a starting point for understanding the potential impacts of strong cooperative bargaining laws at the federal level, this research examines the impact bargaining can have on prices producers receive for their products, as well as other economic and social benefits bargaining can provide. Apple growers in Michigan and New York were selected for study for these reasons:

■ Michigan has a strong law in support of bargaining associations that requires binding arbitration and good faith bargaining. New York has no such law.

■ Michigan has a functioning bargaining cooperative for apples while New York has none (a previously formed cooperative in New York is now defunct).

■ Apples are an important crop in both states. Michigan ranks No. 3 in the United States in apple production, while New York ranks No. 2. Both states process a significant portion of their apple harvest and use similar processing methods (canning, juice, freezing).

■ The apple commodity system fits the criteria outlined by earlier studies for potentially successful associations: limited ability for short-term entry into the industry (perennial fruit crop) and a concentrated processing sector. In addition, while Michigan and New



Apple prices in Michigan were higher than both the average New York and overall U.S. prices, which many growers in Michigan credit to the existence of the MACMA bargaining cooperative. USDA photo by Ken Hammond

York are distinct markets for apples, growers in the two states share processors. This reduces the chance that New York farmers may fear extreme reprisals from processors should they form a bargaining association, as these processors have demonstrated their willingness to work with a bargaining association in Michigan.

Impact of price

The effect of bargaining on prices received by producers was measured by comparing actual prices received by growers, according to processing type, from 1969 to 2001. Data were examined for growers in Michigan, New York and nationwide. All prices were converted into January 2002 dollars.

This analysis shows that prices in Michigan for canned, juice and frozen apples were on average higher than the prices in New York and the overall U.S. price. This validates the importance bargaining plays in creating higher farm prices. But the data also reveal that: (1)

real apple prices declined steadily for all growers over the time period studied and that (2) the price differential between Michigan and both New York and the nation has diminished.

Growers blame imported apples and apple concentrate from China for falling U.S. apple prices and the erosion of MACMA's ability to favorably affect prices. This suggests that globalization of agricultural markets poses a significant challenge to domestic-only bargaining associations.

Other benefits

Benefits other than price received, particularly the degree of uniformity and quality of contract terms, are in many ways the most important measure of the success of bargaining associations. However, these fringe benefits are not easily quantifiable.

In this study, a short mail survey was sent to all known apple growers in Michigan and New York. Just over half the Michigan growers and just under half of the New York growers returned valid surveys. The responses were divided into three groups: (1) MACMA members; (2) growers in Michigan who are not MACMA members and (3) growers in New York. Analysis focuses on both actual services available and the satisfaction of growers with their marketing opportunities. The responses reveal:

■ MACMA growers were more likely to believe they have some influence on the prices received for their processed apple crop. For this group, 26 percent either agreed or strongly agreed with this view. Only 7 percent of Michigan non-MACMA and 8 percent of New York growers agreed or strongly agreed with this view. In addition, 18 percent of MACMA growers, 10 percent of Michigan non-MACMA growers and 8 percent of New York growers agreed or strongly agreed that they had some influence on the terms of trade for their processed apple crop. Clearly, more MACMA growers perceive they have some input into important aspects of the processed-apple contracts than other growers.

■ MACMA growers were also more

likely to believe they had input into public policy that might affect them. Almost 30 percent of MACMA growers agreed or strongly agreed with the statement that they had input into such state government policies. Less than 20 percent of the Michigan non-MACMA growers and about 25 percent of New York growers agreed with the statement. Regarding input into federal policies, 22 percent of MACMA growers, 17 percent of Michigan non-MACMA growers and 14 percent of New York growers at least agreed that they had input.

■ MACMA growers were also more likely than the other two grower groups to at least agree that they were generally satisfied with their marketing arrangements.

■ Almost 70 percent of MACMA growers support a new federal law that requires processing firms to bargain with accredited grower bargaining cooperatives or associations. However, 49 percent of Michigan non-MACMA and 56 percent of New York growers agreed with the statement.

■ Over 50 percent of MACMA growers agree or strongly agree with the statement that they could find marketing assistance if they needed it, compared to only 17 percent of non-MACMA Michigan growers and 13 percent of New York growers.

■ Over 80 percent of MACMA growers and more than 50 percent of the growers in the other two groups believe that grower bargaining units raise prices for all growers.

Satisfaction index

To further investigate the potential impact of membership in MACMA on attitudes and perceptions, researchers constructed a "satisfaction" index from the six survey items discussed above. A statistical regression analysis was performed using responses to other survey questions to ensure the findings were valid.

The results indicate that membership in MACMA brings with it more satisfaction as measured by the items in the index. MACMA members: (1) feel

generally satisfied with marketing arrangements; (2) feel they can receive help in finding apple markets and (3) feel that they have input into contract terms and price, as well as input into state and federal policies.

These results are not surprising considering that MACMA actively lobbies on behalf of its member growers, represents them in contract negotiations with processors and maintains a marketing desk that will find outlets for members' apples as needed. The importance of these findings is that the members surveyed realize such efforts are being made on their behalf, and their perceptions differ from those of growers not in the organization.

Other factors that were found to generate grower satisfaction include higher numbers of processing firms available as buyers, lower percentages of the apple crop sold as processed apples, fewer times selling to processing firms without an agreed-upon price, lower percentage of the fresh apple crop from packing house culls and membership in an apple processing cooperative that meets members' marketing needs.

Conclusion

The histories of the New York and Michigan apple industries indicate that state legislation that protects growers' ability to organize is essential for establishing viable bargaining cooperatives. It is also clear that the presence of a bargaining cooperative has enhanced the welfare of Michigan growers, especially MACMA members.

Comparisons of apple prices in Michigan, New York and the United States as a whole from 1969 to 2002 show that Michigan growers received higher prices for their apples through most of this period. The price benefit appears to be shrinking, however. Apple growers assign blame for falling U.S. apple prices to imported apples and apple concentrate from China.

The results of the mail survey indicate that MACMA members tend to be more satisfied than non-members.

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Southern hospitality

Walton Electric Co-op makes a positive difference for Georgia

By Steve Thompson,
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Editor's note: this is the second of three articles focusing on the community-building efforts of electric cooperatives.

To most urban Americans, their electric power provider remains out of sight and out of mind—except during power failures and when the electric bill comes due. But in rural Georgia, an electric distribution cooperative has made a place for itself as a community institution, through its efforts to make a positive impact on the lives of its members and their families and neighbors.

Walton Electric Membership Corporation is headquartered in Monroe, Ga., about 35 miles east of Atlanta. It serves 100,000 electric subscribers in ten counties, including parts of the greater Atlanta area. The co-op works hard at fulfilling its prime mission of providing the energy needed to keep its service area thriving. Walton EMC aggressively rides herd on costs to keep its electric rates stable, while keeping its infrastructure healthy and returning \$2 million in capital credits to its members last year. The cooperative maintains a reputation for excellent customer service and has received several recognition awards for its community outreach efforts.

Walton's products are no longer limited to electricity. Last December, Walton EMC Natural Gas, a new affil-



Students of Shiloh High School in Gwinnett County, Ga., cheer a classmate testing an electric-powered car they built. The project is sponsored by Walton EMC, which provides practical expertise and other resources. Photos courtesy Walton EMC

iate, began supplying members with gas priced up to 25 percent less than other gas marketers in the area. Another affiliate supplies security equipment and services in the co-op service area and beyond.

Co-op's commitment to community service

By most measures, that kind of record would spell success for an electric co-op. But Walton has gone far beyond its business role to become a major force for community service. As the result of its efforts, firemen get funds for new equipment. Low-income patients on prescription medications get help to defray the cost. A man who lost his job gets help with his



Walton EMC's "Round Up" program gave \$10,000 to Recording for the Blind and Dyslexic, which transfers books to audio cassettes and CDs for visually impaired students.



Skilled linemen keep Walton's infrastructure in good shape while holding down service costs for co-op members.



The 2003 "Taste of Home" cooking school, co-sponsored by Walton, attracted 500 participants and raised \$3,000 for a local Boys and Girls Club. The school has been presented annually for 50 years in the Walton service area.

mortgage payment. And the co-op is actively involved in sponsoring educational activities in local schools.

Ronnie Lee, president and CEO of the cooperative, says that community involvement is nothing new for Walton. "When I came here 25 years ago, the co-op already had a long-standing tradition of being heavily involved in community service," he says. Lee

thinks the reason is the attitudes of the people who work for the co-op. "We're just more service-oriented. That's the kind of employees we have."

The centerpiece of Walton's community activities is Operation Round Up, a program in which members voluntarily agree to have the amounts on their electric bills rounded up to the nearest dollar. More than 30,000 members participate in the program. Contributing an

average of 50 cents per bill, the program amassed about \$180,000 last year. The money is used for small grants to deserving organizations and individuals.

The recipients are chosen by a 15-member board of co-op member volunteers, each one appointed by a member of the Walton board of directors. Says Lee, "They do an outstanding job. They consider every application for help that comes in."

Individual recipients of Operation Round Up funds include a man suffering from cancer, whose current treatment is not covered by insurance. A number of people laid off from their jobs or unable to work for one reason or another, have been given help with their mortgage payments.

One elderly man received \$1,500 for hearing aids he couldn't otherwise afford. A low-income family was given \$1,000 for dental work for one of their children. And a disabled man got funds for a ceiling lift to help his wife move him in and out of his bed and the shower.

Organizations receive gifts from Operation Round Up for even more varied reasons. One, called Recording for the Blind and Dyslexic, was given \$10,000 for transcribing books to audio tape and CDs. A local chapter of Habitat for Humanity received \$3,000 to install electric wiring in a new house. A group called Project

ReNeWal received \$3,000 for furniture for a shelter for victims of domestic violence.

Local fire departments have received a number of grants for equipment and other purposes. And many schools are beneficiaries of the program, having received grants for special educational equipment, furniture and special expenses.

Demand outpaces funds

The main challenge with Operation Round Up is that many more applications are being received than the cooperative has funds for. That means trying to get more members to participate in the program.

"It seems we've reached our saturation point," said co-op spokesman Greg Brooks. "When we began the program, we decided not to go with an 'opt-out' sign-up, as many other co-ops have done." With an opt-out option, co-op members are automatically enrolled in the Round Up program unless they call or send a postcard saying they want out.

Even though co-ops using an opt-out sign-up usually get higher participation levels, Walton EMC felt this option would not be the best way to serve its members.

"Now it seems that we're at a plateau," Brooks continues. "But we still don't regret not going the opt-out route. Besides providing a community-service opportunity, Operation Round Up is also a public relations opportunity and we didn't want to create dissatisfaction and make some members feel they were forced into participation."

Since the co-op has many more applications than funds, some very deserving causes are not receiving grants. "Our volunteer board frets and sweats over every application—it takes this job very seriously—and it's really heartbreaking to deny some of the legitimate requests."

As a side benefit, he notes, board members see firsthand the good work the co-op is doing and they've become stauncher supporters of it.

Benefitting schools, youth groups

Walton's support for education goes beyond Operation Round Up. The co-op has a sponsor relationship with a school in each of the 10 counties in its service area, participating in incentive programs for teaching excellence and helping with expenses for teacher breakfasts and other functions. Staff members also give presentations about electrical safety and the history of the cooperative movement.

Every summer, the co-op sends a delegation of students to the Georgia Cooperative Council Youth Leadership Conference, where they learn about cooperative associations and participate in exercises teaching teamwork and leadership skills.

The co-op also partners with the local Future Farmers of America (FFA) chapters in a career development program for students interested in electrical work. One high-school physics program got help for its electric vehicle program, winning second place in the nationwide Electric Vehicle Congress.

Walton EMC employees are known for their involvement in the community as individuals, as well. Many volunteer at local schools, churches, and other community institutions. The employees are enthusiastic supporters of the March of Dimes and stage two golf tournaments every year to raise funds for the charity. Lee says anyone is welcome to play, but most of the participants are employees themselves.

Through the tournaments and other activities, such as a giant yard sale, co-op employees have won top place in the local March of Dimes fundraiser four years running. And staff members recently began participating in "Relay for Life," a 24-hour relay walk-a-thon that raises money for cancer research.

Having service-oriented employees translates into high morale and a willingness to explore new ways to serve members. The new natural-gas affiliate is a good example. Co-op members were a driving force behind recent deregulation of the utilities industries in Georgia, which made it possible for electric co-ops to sell gas. It was Walton members seeking improved gas service who asked cooperative management to enter the market.

"I was in the electric industry my whole career, and natural gas is a little bit different," Lee says. "But we are an energy company, and our customers wanted us to do it." The new gas service started out with only eight customers last November. The number of participants has grown to 15,000, and is expected to climb to 20,000 by this fall. This growth has been achieved with no advertising, other than in the member newsletter.

"It's been mostly word-of-mouth, but we've gotten a really enthusiastic response," says Lee. "Now I'm sure



The Gwinnett County Golden Olympics, sponsored by Walton EMC, is part of a statewide competition. Although medals are given, the main purpose of the event is to encourage physical fitness among seniors and to have fun.

we did the right thing."

Starting a security affiliate was also in response to customer interest. The security business is different from electric distribution, but, says Lee, "Customers know our name." Walton got together with another electric cooperative, Jackson EMC, to set up the new affiliate about four years ago.

Today, EMC Security is subsidiary wholly owned by Walton and Jackson EMCs. The venture has been successful, in part, because EMC offers a no-nonsense security product, selling equipment separately from services, and not tying customers to onerous leases or monitoring contract requirements like some competitors.

Monitoring fees are more than competitive. "There's a six-month, 100 percent money-back guarantee on every system," says EMC Security General Manager Vince Raia. In about four years, the customer base has grown to about 8,000, most of it in the Atlanta metropolitan area.

"It's just another avenue we can serve," says Lee. Though times have changed, the Walton tradition of service is alive and growing. ■

Walton saluted for business ethics

Walton EMC was recently recognized with the first Samaritan Business Ethics award, presented by the Covenant Counseling and Family Resource Center and the Gwinnett, Ga., Chamber of Commerce. The award recognizes businesses that are "doing the right thing" and which foster heightened awareness of ethical business practices.

Covenant Board President Barbara Myers said Walton demonstrates strong ethics and integrity toward customers, employees and the community. "Walton operates with the philosophy that the customer is given the benefit of the doubt," she said. "Electric rates are structured to provide the most affordable rates possible while recovering the cost of providing electric service." ■



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Adversity to Advantage

Pacific Coast Producers uses USDA grant to develop single-serve fruit bowl market

By Karen Spatz, Co-op Development Specialist
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These are not your mother's canned peaches anymore! A canned peach is not just a canned peach, it's a fun, tasty food that fits today's lifestyles, thanks to innovative processors such as the Pacific Coast Producers (PCP) cooperative in Lodi, Calif. One of the cooperative's newest products is a single-serve fruit bowl which has the potential to provide a significant boost to the long-stagnant processed fruit industry here.

How important is this new product? "It's the life saver for the industry," says PCP President Larry Clay. PCP sees the potential for 20 percent annual growth after its first year marketing the product. Clay credits the cooperative's receipt of a USDA Producer Value-Added Grant for helping PCP pursue this new market several years ahead of the timetable it could have achieved on its own.

Finding success as a private-label packer

PCP is a processing and marketing cooperative formed in 1971, when there were few processors and lots of fruit in the state looking for a home. This imbalance drove down fruit prices for California growers, who responded by forming PCP.

Justin Micheli, a first-generation co-op member, says the market situation in California today is similar to that of the 1970s. "We really had no other choices but to join a cooperative, as no independent canners would buy our peaches. It is the same today," he says. Justin says that "the most important reason farmers join a cooperative is to secure a home for their product. I would

never plant a tree if I did not have a home for my product." The Micheli family farm in Yuba City is headed by John Micheli, Justin's son and vice chair of the PCP board of directors.

PCP's operations have always differed markedly from those of most other canning cooperatives in that rather than developing its own brand, the cooperative is focused on producing for the private-label market. It began as a co-packer for Stokely Foods after purchasing three canning plants in California.

Until 1984, the co-op packed exclusively for Stokely, but then began packing 50 percent for private labels and 50 percent as a co-packer. A decision was then made to move toward 100 percent private-label packing, meaning the cooperative puts its fruit in cans that bear the store brand of various retailers. Today, it still packs all its fruit for the private-label market. In the early 1980s, PCP

expanded production of tomato products.

Today, PCP has 183 members who supply the cooperative with peaches, tomatoes, pears, grapes and apricots. The cooperative still operates three plants, the newest of which is a tomato-canning plant in Woodland. Plants in Oroville and Lodi process the co-op's fruit. PCP added plastic-packaging capacity in 1989.



Inside Pacific Coast Producers packing plant, where single-serve fruit bowls (below) are being produced for the private-label market. USDA photos by Karen Spatz



USDA grant boosts fruit bowl plan

PCP was awarded a \$450,000 Value-Added Market Development Grant in 2002 by the Rural Business-Cooperative Service of USDA Rural Development. Grant funds were used to pay for production and marketing of single-serve fruit bowls under the private labels of U.S. retailers.

The fruit bowls are 4 oz., single-serve plastic bowls manufactured by a patented machine. It forms the

bowls, fills them with fruit and juice and then seals them. PCP's fruit bowl packing line uses member-grown peaches and pears, which are mixed with juice, syrup or gel products.

As a private-label food processor and marketer, PCP does not have its own brand. In most cases, PCP follows market trends, introducing new products to retailers after a branded company has made inroads with a new product line.

PCP initially produced single-serve fruit bowls for Dole Food Co. under the Dole brand. But Dole cancelled its contract with PCP and began purchasing fruit bowls from a foreign company.

Single-serve fruit bowls are fairly new in the canned fruit aisle. Store

brands currently have at least an equal market share with "brand-name" products. So this is a major potential market for a private-label packer, such as PCP.

Turning adversity into advantage

Finding opportunity in adversity, PCP saw this lost contract as an opportunity to capture the emerging market in private-label fruit bowls. It completed a comprehensive marketing and feasibility study, which showed that there was an opportunity for the co-op in this sector. A business plan was developed which defined how PCP could successfully compete against low-cost foreign producers.

The PCP retail sales team made presentations to 51 retail store chains, retail wholesalers and food service wholesalers. It originally offered customers a line of six fruit bowl products, which has now been expanded to 14 products.

Among the customers PCP is packing fruit bowls for are: Albertson's, Aldi, Unified Western Grocers, Fleming, Stop & Shop, Tops, Bilo, Giant, Brunos, Shaw's, Hannaford Brothers, Stater Bros., Western Family, Kroger, Fred Meyer, Ralph's, QFC, Food 4 Less and Smith's. Also: Fry's, King Soopers, Schnucks, K-VAT, Meijer, Shurefine International, White Rose, Nash Finch, Spartan Stores, The Suter Co., Roundy's, HEB Grocery Co., Publix, Fareway Foods and Amway. The co-op's customer list also includes: Winn Dixie, Food Lion, Piggly Wiggly, Roche Brothers, Wegman's, Great A&P, Weis Markets, Goya Foods, Nugget Distributing and Midland Foods.

PCP has shipped fruit bowls to 40 customers under 32 different store brands. Those 40 customers have ordered 2 million cases using over 70 tons of fruit. PCP hopes it will



PCP members' peaches and other crops are processed into single-serve fruit bowls and other fruit products by the co-op. PCP President Larry Clay says this convenience food has the potential to pump new life into the stagnant canned-fruit industry.

add at least 10 more retail chains to its customer list in the next year.

PCP leaders are positive about the long-term prospect of the fruit bowl market. External factors, however, could have significant impact upon it. In the initial introduction of the private-label fruit bowl product, two branded fruit leaders began discounting prices below those on which PCP based its projections. This caused returns to drop below expectations.

Additionally, imported product from Thailand and China caused U.S. prices to drop. Production costs in foreign countries, due primarily to low-cost labor or large government subsidies, pose a threat to undercut the price PCP needs if it is to turn a profit for its members.

But all factors considered, PCP leaders believe the strong acceptance of the fruit bowl products by customers in the initial marketing phase bodes well for the future. They anticipate growth rates of 20 percent per year. Consumer acceptance of the single-serve fruit product has been so encouraging that PCP believes this product will invigorate the processed fruit market.

PCP's grower-members will benefit from the increased fruit demand to produce this new product, and they will realize the benefit not only through increased deliveries to the cooperative, but also through increased returns and patronage payments for this value-added effort.

"There was the grower demand to sell more of their crops and, thanks to the grant, we had the resources and capacity to provide the public with the finished product," Andy Russick, vice president of retail sales for PCP, recently told the Oroville *Mercury Register*. "We couldn't have done it without the USDA grant program."

For more information about PCP, visit its Web site: <http://www.pcoastp.com/>. For more information on USDA Rural Development's Producer Value-Added Grant Program, visit www.rurdev.usda.gov/rbs/coops/vadg.htm or call Gail Thuner at (202) 690-2426. ■

More than milk

Dairylea's scope of farmer services moves beyond milk marketing

By Pamela J. Karg

Editor's note: Karg is communications specialist based in Baraboo, Wis., with extensive experience working with cooperatives.



challenge the premise of the question “What is Dairylea doing to survive?” says Rick Smith, chief executive officer of the dairy cooperative based in Syracuse, N.Y. “Who wants to just survive? We want to thrive and have our members thrive. In doing that, we’re finding ways for our members to enhance their farm income.”

At a time when many food businesses are growing in the number of plants, suppliers and employees they encompass, Dairylea Cooperative Inc. has taken a different tack. Like a well-positioned Wall Street financier, the Northeast’s largest milk-marketing organization has diversified its portfolio of services in response to a changing farm economy.

“I give credit to the organizations that have found ways to be successful with dairy processing plants and brand names, but there’s not just one way of doing business. And neither way is right or wrong. It’s a matter of what works for your farmers and your organization,” Smith explains.

A history of change

But Dairylea’s current focus did not happen overnight. In fact, the cooperative’s history and the Northeast dairy scene are rife with change.

A group of Orange County, N.Y., dairy farmers united in 1907 to increase their bargaining power, forming one of the first cooperatives in the country: The Dairymen’s League. By the 1930s, its membership had grown to more than 100,000 farms. To guarantee a market for its members’ milk, the League began operating its own processing and manufacturing plants. And its Dairylea line of products became one of the best-established brands in the region.

In 1969, the League changed its name to its popular consumer brand name, Dairylea. But by 1988, Dairylea had sold its product lines and the last of its milk plants, and refocused its resources on enhancing the overall profitability of its membership.

Dairy farming is the largest agricultural industry in

Dairylea’s home state of New York, providing more than 50 percent of its agricultural income. In 2002, the state had about 7,100 dairy farms with almost 679,000 milking cows, making New York the third largest dairy state in America. But the majority of the dairy industry moved to the Upper Midwest a century ago and is shifting again to California, Texas, Washington, New Mexico and Idaho.

The Northeastern and Mid-Atlantic regions remain major milk-producing regions despite the decline in farm and cow numbers there. New York and Pennsylvania remain among the top milk-producing states in the country. The region produces about the same amount of milk as California within a similarly sized geographic region. However, the region has almost 50 percent more consumers than does California. This makes it a prime location for dairying.

Today, Dairylea is a fast-growing, service-oriented and multi-faceted organization. Since the early 1990s, Dairylea’s membership has grown substantially throughout the region and the volume of raw milk that it markets has quadrupled. At the same time, Dairylea has greatly expanded its array of programs and services to reflect what its members want from the cooperative. More than a marketer for its farmers’ milk, Dairylea and its subsidiaries are focused on maximizing the profitability of each member’s farm operation, Smith explains.

“Our mission is to enhance our farmers’ profitability. Profitability has two major components: income and costs. Not only does Dairylea work hard to secure a competitive price for member milk, but it also provides programs and services that help make a farm business efficient and profitable,” Smith says.

Milk marketing partnerships

“Many of the long-term, major dairy companies of the past have exited the region, while others have merged,” says Dairylea President Clyde Rutherford, who operates a 500-acre dairy farm with his wife, Jeannette, and partners Elmer and Ann Johnson. “The number of milk plants in the region has declined. This will continue. In general, we are no longer dealing mainly with the family-owned businesses that we knew for generations. Many of the major dairy operations in the East are part of diversified mega-corporations, many international in scope.”



New York, home of Dairylea, has more than 679,000 dairy cattle, making it the third largest dairy state in the nation, lagging only California and Wisconsin. Grant-Heilman Photography

On this sea of change, Dairylea has emerged as the largest milk-marketing organization based in the Northeast. Last year, it sold 5.5 billion pounds of raw milk through a milk-marketing network that reaches from Maine to Ohio to Maryland. Sales have steadily increased and are now at \$1 billion. The cooperative also has investments in several dairy companies in the region, as well as many long-term sales agreements.

“Dairylea has developed a strong yet flexible milk marketing network throughout the Northeast. We maintain busi-

ness agreements and joint ventures with other cooperatives and proprietary companies, and are, therefore, free of dependency on any one plant, customer or relationship,” Smith explains.

In September 1999, Dairylea formed a partnership with Dairy Farmers of America (DFA), Kansas City, Mo., the nation’s largest dairy cooperative. The new entity, Dairy Marketing Services (DMS) LLC, markets nearly 16 billion pounds of milk provided by more than 9,500 dairy producers in the eastern region. It is supplying the milk requirements of more than 90 processors and manufacturers in the region.

As the retail industry continues to consolidate, DMS has played a vital role in the industry. Last year, DMS became a national company and has established milk marketing relationships with industry giants such as Dean Foods, Land O Lakes, Vermont-based cooperative St. Albans and others.

“We are excited about this venture which allows for increased savings for our farmers on milk hauling and supply distribution,” says Rutherford. “At the same time, we are managing near 50 percent of the Northeast’s milk supply, which enables us to provide superior service to our customers, particularly those large dairy companies with multiple plant operations.”

Before the formation of DMS, Dairylea and DFA had a common investment in Dietrich’s Milk Products in Pennsylvania, and had milk exchange arrangements with several of their common customers. The creation of DMS has improved the efficiency of serving the fluctuating needs of all their customers, including major players Dean Foods, Kraft Foods, Great Lakes Cheese, Leprino Foods, H.P. Hood and Sorrento Cheese.

“For many, many years, farmers have been concerned about the lack of cost-effectiveness regarding several milk tankers going down the same roads and picking up milk at different farms depending on which cooperative the farmer belonged to,” adds Rutherford. “Additionally, milk supplies that were logical for a particular plant often went to a more distant facility because the cooperative serving that customer did not market that local block of milk. With the creation of Dairy Marketing Services, we have moved a giant step closer to maximizing the efficiency of milk assembly and distribution in our region.”

Beyond the milk truck

“Dairy farmer-owned cooperatives have changed over the years,” adds Rutherford. “Some have merged and some have gone out of business. At the same time, organizations that provide services for farmers have changed significantly in recent years.”

The first issue that moves a farmer from one milk-marketing organization to another is price. Dairy farmers will jump ship for what seems like a few pennies for every 100 pounds marketed, which can quickly add up to thousands of dollars annually.

But Dairylea has moved beyond just the assembling and marketing of milk, and then paying farmers a competitive price for their raw supply. The approach seems to be paying off in the cooperative’s ability to attract more people to its membership, which has grown steadily over the past few years, says Smith. He believes that growth comes from the added services that fill a void and focus on helping farmers reduce their costs.

In addition to DMS, Dairylea’s other subsidiaries include Agri-Edge Development, Agri-Services Agency, Eagle Dairy Direct, Empire Livestock Marketing and Agri-Financial Services. It also maintains a partnership with Dairy One—the former Northeast Dairy Herd Improvement Association. Each entity adds value to the membership a farmer holds in the cooperative.

“We continue to examine new ways of doing business. Some of our ideas would be viewed as non-traditional for a dairy cooperative,” admits Smith. “In recent years, Dairylea has evolved from being strictly a milk-marketing cooperative to becoming an agricultural service organization that focuses on milk marketing.”

Agri-Edge Development

Dairylea’s Agri-Edge subsidiary is a business- and development-planning venture that focuses its efforts on problem solving, sourcing solutions and mobilizing needed resources for farm and non-farm agricultural businesses.

Agri-Edge Development has reviewed hundreds of farm and non-farm businesses since it started in 1998. It has worked with a wide range of business types in their efforts to expand operations, upgrade facilities, implement new technology, start a new venture, enter into a joint venture, turn a difficult situation around, or simply improve profitability.

In one instance, Agri-Edge helped a young dairy farmer who was milking 80 cows in a rented facility to implement a plan to buy a quality facility from an older farmer. Working with the young farmer’s primary lender, Agri-Edge helped source capital for the additional cows needed to make the purchase provide sufficient cash flow. It even assisted with

sourcing of the animals. Additionally, a group of advisors was brought together to work with the young farmer in his start-up operation. A milk price risk management plan was developed to provide support to the farmer and the lender in the face of price volatility.

This subsidiary is focused on delivering results for individual agribusinesses to invigorate the region’s agricultural industry and rural economies, explains Tom Shephard of Agri-Edge.

Agri-Service Agency

This is the oldest of the services offered by Dairylea, and it provides farmers and their employees across the country access to a wide variety of competitively priced insurance programs.

Coverages include medical, dental, workers’ compensation, disability, life and long-term care insurances for farmers, their families and their employees. Most notably, its workers’ compensation coverages provide up-front discounts, a potential dividend and the lowest net cost available in the marketplace. The Blue Cross and Blue Shield network, a long-time insurance leader, sponsors its national health plan.

Agri-Services Agency (ASA) also offers and administers the innovative Farmer Flex benefit plans that can save money for agribusinesses, farmers and their employees. In addition, Medical Expense Reimbursement Plans are available, which allow the average family of four to save about \$100 per month by allocating pre-tax dollars toward insurance-related expenses.

This program allows participants to earmark funds for the cost of insurance premiums, deductibles and non-covered medical, dental and vision care expenses.

More than 60,000 farmers, agribusiness owners, their employees and families are covered by ASA insurance plans. The vast majority of its business is in the health-care and workers’ compensation insurances.

In New York, ASA provides EMPACT—the Empire State Agricultural Compensation Trust. Structured as an independent trust, EMPACT is able to offer substantial up-front premium savings as well as year-end dividends.

ASA provides workers’ compensation coverage through its Agri-Services Safety Group program in New York, Pennsylvania, New Jersey, Delaware, Maryland, Virginia, Connecticut, Massachusetts, Vermont, New Hampshire, Rhode Island and Michigan. This group offers its members discounted rates and year-end dividends, resulting in significant savings. A bonus dividend is often available for those farms and businesses with favorable safety records.

Additionally, ASA conducts an on-going farm safety pro-



“Dairylea has evolved from being a milk-marketing cooperative to becoming an agricultural service organization that focuses on milk marketing,” says Dairylea CEO Rick Smith. Photo courtesy Dairylea

gram for participants in its workers' compensation programs. The goal of the safety program is to reduce employee injuries by improving work practices and providing safer work areas. Fewer injuries result in fewer claims, thereby lowering workers' compensation premiums.

Agri-Financial Services and Dairylease

Because today's farmers are spending more time with consultants, bankers and others to help plan and implement short- and long-term business strategies, Dairylea developed Agri-Financial Services and Dairylease cattle leasing program.

Whether a farmer is looking to purchase a new tractor, expand his or her herd, or make some much-needed updates and repairs to facilities, these programs offer an additional source for funding for Dairylea members.

Besides a line of credit, Agri-Financial Services offers capital loans. Both have maximum terms of five years.

In addition, the Dairylease cattle leasing program was initiated in 1996 to give farmers another option for financing cattle. The tax benefits, along with the fact that a lease frees up capital for other areas of the business, are attractive to many Dairylea farmers. The premise that assets do not have to be owned to be successful holds true for cattle, as it does for equipment, vehicles and land.

This 36-month program provides the option for a buy-out at the end of the lease for a predetermined amount. Also, the farmer keeps all offspring born to the leased cows while agreeing to replace any leased cows that are sold or culled. There is a minimum of 20 cows required for a lease, and the maximum lease would be 50 percent of the farmer's herd.

"The key to this program is that the farmer selects the animals and negotiates the price," explains Karen Cartier, who works with the Dairylease program.

Buying programs

To help members reduce farm input costs, Dairylea has developed several innovative buying programs through its subsidiary, Eagle Supply Co. For members looking to save money on corn and forage seeds, fertilizer, chemicals, pharmaceuticals and a variety of other farm and milk house supplies, the Dairy Direct offers reduced pricing and direct-to-farm delivery.

Additionally, a large-scale buying program is in place for those members who can take bulk delivery of products ranging from commodities to minerals to milk replacer to silage plastic. Purchasing products on-line through Eagle Supply Company's e-commerce site will soon be possible.

Livestock marketing venture

In 1999, Dairylea launched another marketing venture when its Empire Livestock Marketing LLC (Empire Livestock) subsidiary joined with L&L Livestock to create a new direct marketing program. Empire Livestock is the largest full-service marketer of livestock in the Northeast. It operates nine regional markets and a direct marketing facility, commanding more than a 50 percent market share of all livestock sales in its operating territory.

Empire Livestock offers a variety of enhanced services to help producers maximize income from the sale of livestock, equipment and facilities. When bovine spongiform encephalopathy (BSE) fears devastated the livestock industry in the United Kingdom two years ago, Empire Livestock played a leading role in addressing public concerns about the safety of domestic livestock.

Dairylea partners with Dairy One

Having access to a reliable and accurate milk testing and information system is an extremely valuable management tool for dairy farmers. Smith says that's why Dairylea and the Northeast Dairy Herd Improvement Association joined forces several years ago to create Dairy One—an information tech-

nology cooperative that provides farm management information services throughout the Northeast and Mid-Atlantic regions.

Since its formation, Dairy One has succeeded in expanding and improving laboratory testing and information reporting services. In addition, it is better able to respond to the individualized needs of the region's farmers. Dairy One services include milk testing laboratories for DHIA analysis, producer payment analysis and dairy research analysis; records service tailored to the needs of individual farmers to help make profitable herd management decisions; dairy management software and support; and a feed and forage laboratory.

Where to next?

"Controlling the expense side of the dairy operation, we believe, is as important as enhancing the revenue side," Rutherford says.

To that end, Dairylea turned to its members again to analyze their needs and determine how the cooperative could assist. On April 1, a new employment company was added to its portfolio to help place people on Northeast dairy farms. The new service will provide employment screening, hiring, training, resource and supporter materials, and "help bridge cultures," explains Smith.

"No one across this geographical area is doing business like we are," he adds. "We recognize a need in our members and we determine if, and how, we can provide services. We've been very proactive." ■



New free-stall barns such as this one are a common sight in New York, as dairy farmers follow the trend to modernize their operations and expand their herds. Photo courtesy Dairylea.

Minnesota leads the nation in co-op business volume

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Editor's note: Information for this article was collected by USDA/RBS co-op statistics staff members Celestine C. Adams, Katherine C. DeVille and Jacqueline E. Penn.



ven with lower prices in many agricultural sectors, net business volume for the nation's farmer-owned cooperatives

increased by almost 4 percent in 2001, to more than \$103 billion. Leading the way once again was Minnesota with \$9.9 billion in sales by farmer cooperatives (table 1). Minnesota took over the top spot for the first time in 1999.

Figure 2—Number of cooperatives by function, ten leading states, 2001

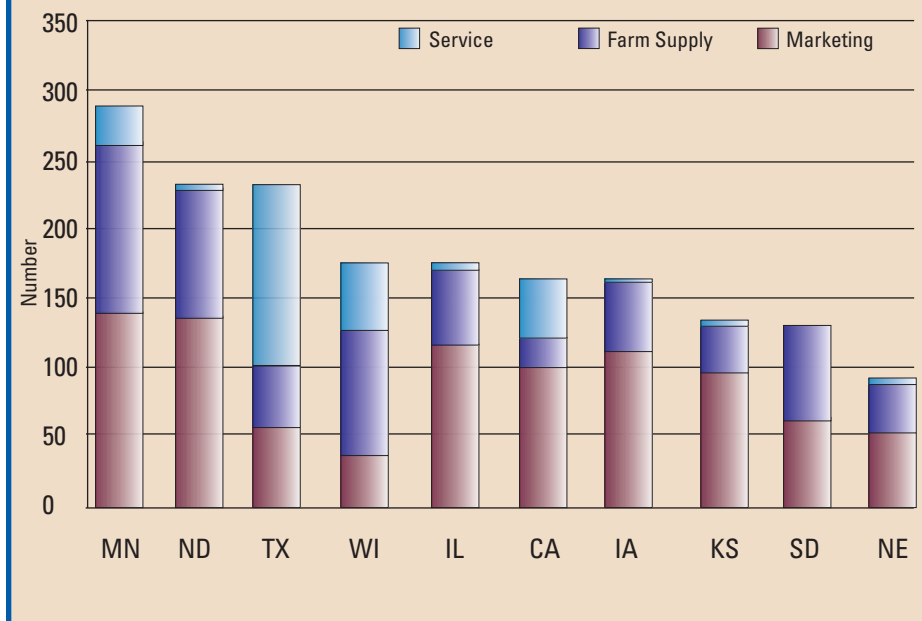
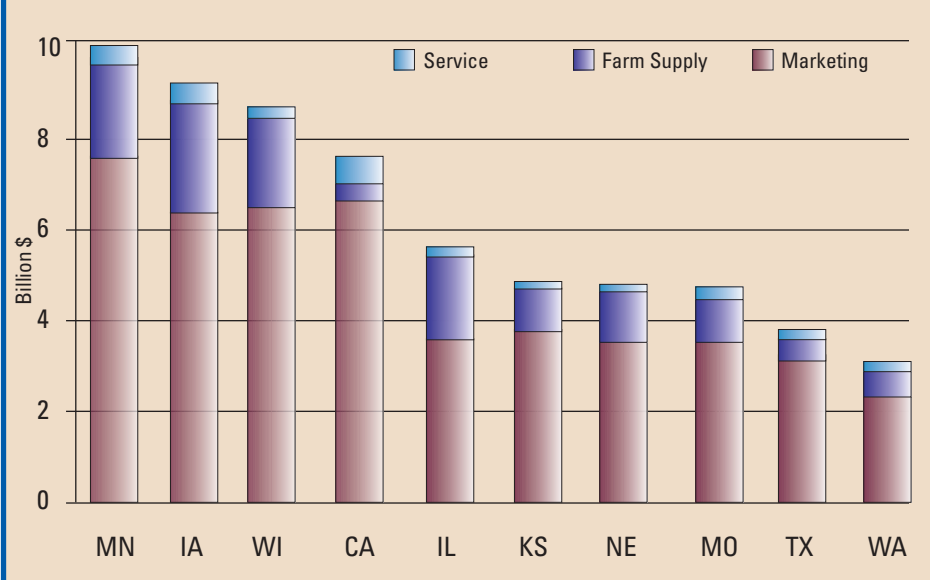


Figure 1—Cooperatives' total net business volume by function, ten leading states



Iowa, which was the leading state in 1997, was second in 2001, with cooperative net business volume of \$9.2 billion. Wisconsin, at \$8.7 billion, fell from second to third place. USDA has been collecting statewide cooperative data every other year since 1951 (figure 1).

Iowa had the largest gain in co-op sales since 1999, increasing \$1.3 billion. Of that amount, \$1.2 billion was from additional products marketed. Wisconsin had an additional \$516 million in marketing sales while Minnesota's gain of \$590 million was almost equally divided between marketing and farm supply sales. Cooperative sales increased in 34 states and the District of Columbia, while 16 states experienced a sales decline.

A breakdown by sale of individual products shows the following high-

Table 1—Farmer cooperative numbers, memberships, and net business volume by State, 2001^{1,2}

State	Cooperatives			state	Cooperatives		
	headquartered	Memberships	Net business		headquartered	Memberships	Net business
	in state	in state ³	volume ⁴		in state	in state ³	volume ⁴
	Number		Million \$		Number		Million \$
Alabama	62	42,222	950	North Carolina	22	96,351	975
Alaska	9	4,812	44	North Dakota	239	120,303	3,292
Arizona	9	2,710	608	Ohio	73	53,407	2,792
Arkansas	52	55,431	1,671	Oklahoma	81	65,640	1,562
California	171	49,553	7,573	Oregon	33	27,043	1,704
Colorado	47	29,122	1,119	Pennsylvania	54	33,442	1,441
Connecticut	5	1,899	214	South Carolina	5	2,639	185
Delaware	3	43,430	104	South Dakota	126	98,395	2,700
Florida	40	29,753	2,414	Tennessee	79	137,805	809
Georgia	17	21,748	1,677	Texas	238	109,926	3,876
Hawaii	20	904	29	Utah	17	9,354	512
Idaho	37	20,259	1,422	Vermont	5	4,557	523
Illinois	175	175,871	5,470	Virginia	57	193,470	847
Indiana	46	66,818	2,071	Washington	78	31,664	3,331
Iowa	166	162,249	9,232	West Virginia	26	83,051	99
Kansas	133	129,576	4,794	Wisconsin	175	186,490	8,738
Kentucky	42	242,873	708	Wyoming	12	5,485	241
Louisiana	47	13,032	736	Other States	4	2,440	111
Maine	26	7,922	225	Foreign	—	2,765	500
Maryland	17	74,404	411				
Massachusetts	12	4,573	637	United States	3,229	3,033,907	103,269
Michigan	62	28,660	2,198				
Minnesota	293	176,594	9,896				
Mississippi	70	111,043	1,056				
Missouri	66	109,134	4,611				
Montana	65	33,066	719				
Nebraska	95	84,834	4,721				
New Jersey	16	7,052	388				
New Mexico	10	2,705	507				
New York	92	37,431	2,826				

¹ Includes cooperatives with centralized, federated, and mixed organizational structures.

² Data for states with fewer than three cooperatives combined with other states. Totals may not add due to rounding.

³ Includes farmer members entitled to vote for directors. There are more members than U.S. farmers because many farmers belong to more than one cooperative.

⁴ Excludes inter-cooperative business.

lights for the leading co-op states from 1999 to 2001:

■ Minnesota cooperatives increased sales of milk/milk products by \$263 million; grains/oilseeds by \$232 million and petroleum by \$256 million.

■ Wisconsin cooperatives increased milk/milk product sales by \$356 million.

■ Iowa cooperatives increased grain/oilseed sales by \$648 million; livestock/poultry by \$346 million and milk/milk products by \$120 million.

Cooperatives in the 10 leading states increased their net business vol-

ume by about \$2.5 billion in 2001 compared with 1999. These cooperatives account for 60 percent of total net cooperative business volume, 63 percent of marketing volume, 51 percent of farm supplies sold and 66 percent of total service sales.

Minnesota was the top state for marketing cooperative products; Iowa was tops for selling farm supplies and California had the highest service receipts for cooperatives. Minnesota led all states in cooperative marketing of sugar and in manufactured food

products and was second in milk/milk products and grains/oilseeds.

Iowa was the top state for cooperative marketing of dry beans/peas and grains/oilseeds and was second for livestock and manufactured food products. Wisconsin was first for cooperative marketing of milk/milk products.

For cooperative farm supply sales, Minnesota was the leader for petroleum and was second for feed and other miscellaneous farm supplies. Iowa was first for cooperative sales of feed, seed,

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Wisconsin's Westby, 'Little Creamery That Could,' marks 100th anniversary

By Patrick Duffey, writer-editor
USDA Rural Development

Many parents have read the “Little Engine That Could” story to their children, but this might be called a tale of the “Little Creamery That Could.” Today’s small community business in the southwestern Wisconsin village of Westby, Wis., was started in 1903. Few thought surviving grandchildren five generations later would still live to see it and enjoy its dairy products, which would eventually be differentiated as “farmer-certified rBGH-free.”

In many ways, little Westby Cooperative Creamery strives amidst some of the nation’s major dairy cooperatives operating in Wisconsin’s Dairyland. This year, Westby is celebrating its 100th anniversary. The small community amidst scenic rolling hills unscathed by glacial flows of 10,000 years ago is located just west of the state’s capital at Madison.

On Oct. 31, 1903, 300 Vernon County dairy farmers paid \$10 each for a capital stock certificate and filed articles of incorporation to form the cooperative. The typical farmer then had about 10 cows. Small farms dotted the landscape. Local farmers

brought cream by horse-drawn wagons to the factory, which was built for \$1,225 on a parcel of land that cost \$400.

In 1927, the Main Street factory was built and still stands, albeit with subsequent remodeling and additions. That first year, the cream from Vernon County dairy farms was made into 67,524 pounds of butter.

Demise of milk cans

Although the first generation is gone, several second- and third-generation patrons still recall the early days. Carla Olson, 83, of Westby is a second-generation patron. “Cows were milked by hand and milk was separated from cream with a hand-cranked separator,” she says.

Her father-in-law, Arne Olson, traveled with his brother from Norway in 1893 by steamship, settled in the Westby area and helped build the original creamery building. In those days, many made their own cheese and butter at the farm, she recalled.

In time, Model T cars and trucks replaced the wagons and later came even larger trucks that hauled the metal cans, which contained 100 pounds of milk. The old standby cans gave way to bulk tanks at the farms by 1969.



A cooperative milk tanker, circa 1943. Right, sorting empty milk cans at the Westby Cooperative “new building” in the early 1940s. Photos courtesy Westby Cooperative

Today, Vernon County has only 600 surviving dairy farmers, and the milk feeding the cooperative comes from 120 members in a half dozen surrounding counties. Westby operates with a staff of 37.

As a farmer-owned cooperative, the Westby Cooperative Creamery takes pride in the traditions started a century ago. Its hard cheeses are handcrafted in open vats by qualified cheesemakers, not machines. And its pure and

natural butter recipe hasn't changed in 100 years.

Its main products are cottage cheese, sour cream, butter and a variety of cheeses made from about a third of the milk the cooperative receives. The balance is sold to other dairy processors.



Cheddar cheesemaking at Westby Cooperative in Vernon County, Wis., during the 1940s.



The Westby intake room in 1942, where milk was dumped and weighed.



Westby label is born

When Tom Gronemus took over as manager in 1992, Westby had lost a major market. For many years it made and sold bulk cottage cheese to Dean Foods. But that relationship ended in 1992.

The creamery was making 500-pound barrel cheese



Even Westby dairy cows are fans of the Green Bay Packers, appropriate since the co-op has been designated as the official "Packers Cheese."

for Borden and 68-pound packs of butter for the federal government. "We didn't even have a label or logo," he recalls. His 30 years with the cooperative makes him personally familiar with the most recent third of its history.

When Gronemus moved into management, he and the board jumped into marketing and developed the "Westby" label. They recruited a sales force, created and tried new products and now have developed a distribution system to deliver fresh products direct to the stores.

Fresh cheese curds have become a specialty. "During the summer, we sell 30,000 to 40,000 pounds of them and our local dairy store at the creamery is a popular stop for local customers and travelers," Gronemus says. "We emphasize high-quality dairy products made with milk from small dairy farms.

"All of our milk is farmer-certified rBGH-free, which also appeals to many people. Our dairy farmers believe hormones used to enhance milk production stress their cows and thereby decrease the quality and wholesomeness of the milk."

Official 'Packers' Cheese'

Steve Holte, who milks 50 cows near Westby, heads the board of seven directors as it embarks on its journey into the cooperative's second century. The newest feather in the cooperative's cap is the contract it signed last summer to provide the Official Cheese of the Green Bay Packers, home of the "Cheeseheads."

Manager Gronemus says the cooperative is "thrilled about the new partnership. We started off with a new product line with the 'Official Cheese Curds of the Green Bay Packers'



and expanded the line during the season."

When ABC's Monday Night Football traveled to Lambeau Field last November, Westby capitalized on the opportunity, commissioning cheese carvings of ABC's John Madden and Al Michaels.

Fans got a taste of the new products when the curds reached most Wisconsin grocery stores last fall. Westby's products can also be ordered online at www.westbycreamery.com.

The creamery launched the first of its many centennial celebrations this spring with the "World's Largest Office Party," sponsored by a LaCrosse area radio station. It attracted nearly 5,000 party goers who witnessed the creamery's cheese curd toss and sampled products.

Cheese carvings of the local radio personalities were made from young cheddar cheese

and later used in promotions at local grocery stores.

Curd Mobile debuts

The official birthday party, dubbed 'The Ultimate Cheesehead Challenge,' was conducted in mid-May as part of the community's annual Norwegian Syttende Mai celebration. In addition to celebrity appearances from Green Bay Packer Mark Tauscher and legendary farm broadcaster Orion Samuelson, the observance marked the long-anticipated debut of the Westby Cooperative Creamery Curd Mobile. Time ran out before Gronemus could train anyone else, so he was busy adding batter and frying curds for the long line of eager customers.

It proved to be a popular place to promote the cooperative's array of products, and a profit center. "It far surpassed my expectations in terms of sales and interest," he said.

Westby promotes the freshness of its dairy products. "Our butter, for instance, is made from fresh cream only a few hours old," Gronemus proudly proclaims. The cooperative claims this freshness gives its products a special flavor.

So what's ahead for this "little creamery that could?" If its performance in the past 100 years is any barometer, Westby will be digging deeper into its market with new and better products for its customers, and reminding existing and new members that when you're part of a cooperative, great things can be accomplished. ■

Top co-op communicators honored in Madison



CHS Chief Executive Officer John Johnson, whose communications skills helped his cooperative transition

through a major merger, is the 2003 recipient of the CEO Communicator of the Year Award, presented in June by the Cooperative Communicators Association (CCA). CCA observed its 50th anniversary in Madison, Wis., marking a return to the city where the organization was launched in 1953 to help strengthen the nation's cooperatives through improved communications.

Other top honors went to *Rural Cooperatives* editor Dan Campbell, who received the Klinefelter Award, and *Tennessee Cooperator* editor Allison Morgan, who earned the Michael Graznak Award. Randall Torgerson, who recently retired after 28 years heading USDA's cooperative program, won a special "Co-op Champion Award."

Originally known as the Cooperative Editorial Association, the organization today represents 300 communications professionals in the United States and several foreign nations who work for farm, utility, credit, housing and other types of cooperatives.

Communications forge new identity for CHS

Johnson's communications efforts played a key role in successfully forging a new identity for CHS, a multi-faceted cooperative with \$8 billion in annual sales. CHS was formed by the merger of CENEX, an energy and agronomy supply co-op, and Harvest

States Cooperative, one of the nation's leading grain marketing co-ops.

"In the five years since CHS Cooperatives was established, John Johnson has proven himself a skilled leader at not only setting direction for the new company, but in using communications to build understanding and sup-



John Johnson



Allison Morgan



Dan Campbell

port among members, employees, customers and other stakeholders," says Lani Jordan, CHS director of corporate communications.

Although members of the two co-ops voted overwhelmingly in favor of the merger, the ride got a little rocky in the early days, making it essential that Johnson and his staff communicate effectively at all levels. Members from both the grain and supply sides of the organization struggled to understand the direction of the new

company, as did the employees of both cooperatives. If that wasn't enough, another merger a year later between CHS and Farmland Industries was proposed, but was voted down by the members, creating further communications challenges.

Johnson, who was originally president and general manager of CHS, assumed the CEO job in June 2000. He made communications and relationship building a top priority from the first day, working tirelessly to build trust in CHS. That trust has translated into long-term support for the cooperative's mission, vision and strategic actions to implement them.

Today, communications is a central part of the cooperative's strategic vision and daily operation. Johnson spends three-quarters of his time communicating formally and informally with CHS stakeholders.

USDA editor honored

Dan Campbell, editor of USDA's *Rural Cooperatives* magazine and deputy director of public affairs for USDA Rural Development, won the Klinefelter Award, CCA's highest honor for a communicator, for his "contributions to furthering the cooperative system and spirit and raising the standards of cooperative communications."

Campbell was cited for bringing new ideas to the leaders of the nation's co-ops and expanding the scope of the magazine to include a broader range of cooperatives that can help improve the quality of life in rural areas.

"He is known for his creative writing, insightful photography and his excellence in producing good, solid

publications,” said award presenter Leta Mach of the National Cooperative Business Association.

A graduate of the University of Colorado with a degree in journalism, Campbell started his post-college career at the bottom—literally—working 2,000 feet underground in a molybdenum mine high in the Colorado Rockies. He then became news editor for a twice-weekly newspaper in Estes Park, Colo., before moving on to the job of farm editor of a daily newspaper and a monthly farm tabloid in Central California.

That was where he first began working with ag cooperatives, leading him to a job as publications editor for Blue Diamond Almond Growers in Sacramento. That in turn led him to the editor's job at USDA in 1992.

Campbell is the 45th recipient of the honor, named for H.E. Klinefelter, an outstanding writer who joined the staff of *Missouri Farmer* magazine in 1931, now MFA Inc.'s *Today's Farmer*. Klinefelter assumed the editorship in 1939 and became well known for his articles advocating cooperatives. He died in 1956.

TFC editor gets Graznak

Allison Morgan, communications specialist with Tennessee Farmers Cooperative (TFC), was awarded the 2003 Michael Graznak award, presented to an outstanding communicator under the age of 36. She was selected for her excellence in telling the co-op story in the pages of *The Tennessee Cooperator* newspaper, of which she is editor.

She was called “a complete communicator,” and “a prolific writer, eagle-eyed editor, accomplished photographer and talented designer.” Morgan is also proof that co-op youth programs yield dividends. As a high school junior, she wrote a prize-winning essay about a trip to Washington, D.C., as a participant in the annual Youth Tour sponsored by the National Rural Electric Cooperative Association.

Morgan joined TFC in 1996 after graduating from Middle Tennessee State University with a degree in mass

communications and expects to complete her master's degree in the same area of study at that university this fall. She was CCA's writer of the year in 2002.

Michael Graznak was an outstanding co-op writer and photographer for Farmland Industries who died on assignment in 1976.

“Co-op Champion” named

The Co-op Champion Award was presented to Randall Torgerson in recognition of his strong advocacy for cooperative communications during his distinguished career at USDA. In 1974, he was tabbed by Agriculture Secretary Earl Butz to head what was then called the Farmer Cooperative Service. Although he retired last year, Torgerson continues to be extremely active as a speaker and panelist in co-op meetings across the nation.

“We need people like this special man,” CCA President Mark Bagby said of Torgerson. “In the past 30 years, there has been no more forceful spokesman, nor a more vigilant watchdog for cooperatives. Whether pointing the way to new opportunities for cooperatives, sounding the alarm about potential negative changes, or fighting for resources for USDA's cooperative education and research program, Dr. Randall Torgerson has been a relentless champion of the cooperative way of doing business.

“He is a champion and advocate because he believes cooperatives are far more than a successful business model, but also a means to strengthen and protect the soul of America's rural life...He not only lived by the co-op book, he helped write it,” Bagby added. “Much of the modern cooperative system in the United States shows the influence of his ideas.”

Top contest winners

Top award winners in CCA's annual communications competition were:

■ Richard Biever, senior editor for the Indiana Statewide Rural Electric Cooperatives Inc., earned “Writer of the Year” honors. This is the second

time Biever has claimed the award.

■ Bob McEowen, field editor for the Association of Missouri Electric Cooperatives, was named “Photographer of the Year.” Contest judges said “Bob is a real photojournalist with a knack for capturing the decisive moment.”

■ Lydia Botham of Land O'Lakes won top honors in special projects for her campaign “Life's Simple Moments.” Her project was selected as the top winner in its class of more than 100 entries.

■ *Cooperative Profiles Magazine*, edited by Jessica Lamker of CHS Cooperatives-Land O'Lakes, received “Publication of the Year” honors. The contest judge said, “This publication is attractive, highly readable and in all aspects supports its objectives. It is highly unlikely to end up in the reader's circular file, but rather retained for a source of future reference.”

Rural Cooperatives and its contributors won several awards, including second place for best member magazine. The judges said the magazine is “visually appealing, highly readable with good content and use of design elements to support text and creative photography.”

John Dunn and four USDA co-authors won first place in the cooperative education writing category for an article they authored on the challenges cooperatives will face in the 21st Century, which was the cover story of the Jan.-Feb. 2003 issue of *Rural Cooperatives*. In that same category, USDA's James Baarda won second place for a series of three articles providing an overview of the responsibilities of co-op directors.

Four new directors were elected to the CCA board: Claire Smith of Sunkist Growers; Glen Liford of Tennessee Farmers Cooperative; Leta Mach of the NCBA and Chuck Lay of MFA Inc. Sheryl Meshke of AMPI is the new CCA president.

The 2004 CCA Communications Institute will be held in Louisville, Ky., June 12-15, and will conclude the year-long observation of the organization's 50th anniversary. ■

Back to School

NICE marks 75th anniversary with return to campus as co-op youth education program

By Jim Wadsworth

Program Leader, Co-op Education and Member Relations

Craig Scroggs

Co-op Development Specialist, Ga. USDA Rural Development

Back to school was the order of the day for the diamond anniversary of the National Institute of Cooperative Education (NICE), held on the campus of Virginia Polytechnic Institute and State University (VaTech) in Blacksburg, Va., July 27—30. This marked the first time since 1986 that the

conference was held on a college campus. Colleges were the traditional settings before the mid-1980s for the event, which has roots that stretch back to the 1920s.

Eighty youth scholars from Arkansas, Kansas, Kentucky, North Carolina, Pennsylvania, South Dakota, Tennessee, Virginia and Wisconsin attended this unique national educational forum that focused on the theme: “Cooperatives: A Gem of a Deal.”

Dixie Watts Reaves, professor of agricultural economics at VaTech, played the key role in getting NICE up and running again after it was discontinued last year as a much larger conference that catered to youth, young farmers, directors, educators and others. The objective was to ensure that the traditional youth development component of



Above, students gather for a general session at the 75th NICE conference in Blacksburg, Va. Below and next page, students learned more about cooperatives through activities such as operating their own purchasing cooperatives, analyzing cooperative case studies and various team-building exercises. USDA photos by Craig Scroggs

NICE would continue.

Given the tremendous amount of enthusiasm exhibited by the youth scholars and rave reviews of all involved, it is clear that there remains a strong need for a NICE youth conference.

Running the store

Danny Adams of Southern States Cooperative discussed farm store business concepts and led the students through a cooperative business simulation exercise. Students in nine teams used their newly acquired business acumen for setting margins and sales goals, controlling inventory and analyzing financial data to direct their cooperative stores toward improved performance. The teams made a series



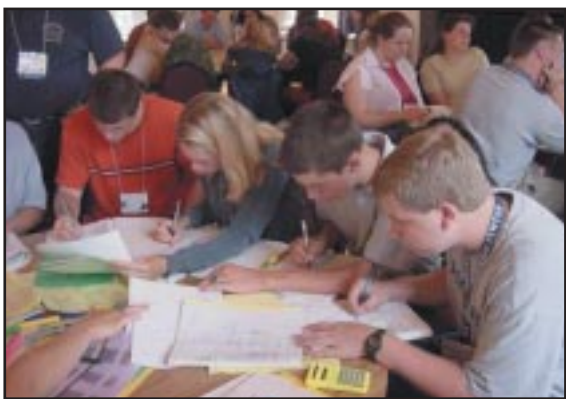
of four decisions, each involving 38 variables.

Winning teams in each of the three market areas were crowned, based upon their stores' increased net worth. By the end of the simulation, the teams had learned a great deal about managing and directing a co-op farm supply store.

Student teams also formed their own purchasing cooperatives, which they operated throughout the institute. They developed business plans, selected goods to sell or services to perform, set prices and marketed their goods or services to each other. T-shirts, water, candy, soda, visors and various other goods were offered. Each student cooperative that earned a profit then contributed that money to a scholarship fund for the 2004 NICE.

The teams competed in assessing and analyzing two cooperative case studies where the students were required to effectively identify the problems with the cases, propose possible solutions and consequences, then choose the best solution. The competition was close and the judging tight. Lionel Williamson and Patsy Whitehead of the Kentucky Council of Cooperatives scored the cases. The winners of each case study delivered and defended their solutions to all the teams, resulting in vigorous debate and further enriching the learning experience.

NICE participants took a Myers-Briggs Type Indicator (MBTI) survey (to assess personality traits) before the institute. Judith Jones of VaTech discussed uses of the MBTI, handed out



The future of NICE

The fun and enthusiastic learning reflected at this diamond anniversary of NICE provided a strong foundation for continuation of the program. Adult leaders discussed committing to future plans to further advance the quest of educating America's youth on cooperatives on a national level. It was clear that developing even greater participation and increasing energy toward future strong national institutes is a reality well within reach.

The return to campus for this year's NICE proved to be an ideal setting for this event, now streamlined as a youth education program.

In the last issue of this magazine (see commentary on page 2, July/August 2003 issue) James Haskell, acting deputy administrator for USDA/RBS, said "The need for cooperative education is greater today than at any time in memory." Programs such as this must continue.

Just as with various other educational programs around the country, this year's NICE proved that some seeds of cooperative education remain firmly planted. With care and focus, they can continue to grow. ■

individual results and did some aggregate assessments of the group.

Institute participants toured a Southern States Cooperative regional warehouse, attended a southern-style barbecue dinner in Longwood Park in Salem, Va., and attended a baseball game in the crisp mountain air at the picturesque Salem Avalanche ballpark.

Working together

Team-building challenge activities were interwoven throughout the program, with students organized in various groups to learn the benefits of mutual cooperation and trust. The level of spirit generated by these activities enhanced camaraderie and relationships among students.

A cooperative education and employment opportunities session was added to the institute. Students got an overview of job opportunities in cooperatives and were advised of what to expect when reaching college and confronting the challenges of selecting and pursuing minor and major courses of study.

A formal banquet on the final evening of the institute gave students an opportunity to dress up and socialize, take

group pictures, perform a skit and receive recognition for individual achievements. An institute video presentation capturing students involved in different activities during the week generated laughs. Following the banquet, a dance and karaoke party was held.

After a cooperative history and governing principles lesson, students acted out the development and founding of the first consumer cooperative, started by a group of weavers in Rochdale, England in 1844. This provided students with a unique perspective of the discussions and cooperation required to form a cooperative business.

The competition to be named an "outstanding youth scholar" advanced through a series of interviews conducted throughout the institute in front of a panel of adult leaders. The winners, announced at the banquet, were: Janice Keeley of Oregon and Adam Wolking of Kansas. Runners-up were: Lori Andrews of Arkansas and Daniel Nead of North Carolina.

A number of sponsors helped make the 75th anniversary of NICE a reality. Students expressed their appreciation with displays of banners and announcements. ■

GROWMARK certification program prepares directors for new challenges

Today's cooperative director faces more challenges than ever. The knowledge and skills needed to be an effective director continue to grow in number and importance.

"Our local cooperative members are three to ten times larger than they used to be," says Rick Wills, director of education and development for GROWMARK, Bloomington, Ill. "Directors used to make decisions affecting one county; now it could be for a quarter of a state. As this growth was occurring, the message we kept hearing from directors was the need for more training."

To assist directors in attaining and developing skills and knowledge, GROWMARK developed the Certified Cooperative Director Program for its FS member cooperative directors.

The program is designed to improve the abilities of board members to better carry out their individual and team

leadership roles by providing education, involvement and recognition processes.

"GROWMARK regional managers identified the skills necessary for successful board members and the program was developed around the need to understand cooperative financing, legal and board responsibilities as well as how to improve leadership," Wills says. "Board members are finding that the same skills are applicable to their own business and other board responsibilities."

Program launched in Canada

A pilot program was launched in Ontario beginning in late 2000 and was brought to the rest of GROWMARK's trade area in 2001. Currently, two-thirds of the FS directors are involved in the process. More than 120 are certified, and 425 are actively pursuing certification, according to Wills.

"I am pleasantly surprised by directors' acceptance of the program. It asks for extra time from busy people, but the support has been overwhelming. They see the need and value of certification. Some local co-ops are making it a requirement for new directors," Wills adds.

Group and individual director development plans include required and optional activities. These include participation in ongoing programs sponsored and conducted by GROWMARK as well as local and regional activities conducted by local management, GROWMARK regional staff, GROWMARK education and devel-

opment staff and/or outside providers.

To become certified, a director must earn at least 30 credits over a two-year period. Required programs include: "New Director Orientation," "Cooperative Finance 100," and "Director Responsibilities." There are currently 15 additional programs, including topics dealing with fiduciary responsibility, understanding pricing, smart risk taking and leading change.

Decertification required

To keep the skill levels current, directors must recertify every two years. To retain certification, directors must obtain an additional 30 credits during each two-year period.

"We are providing directors a higher level of knowledge and expertise to make better decisions for more successful cooperatives," Wills says. "This should help farmers have increased confidence in their local boards. They can know that directors have the tools to protect their investment and guide the co-op to meet members' needs. The more training we provide, the more the directors want."

Cooperative directors who have participated in the program say it has great value.

Ron Weidner, president and board chairman of CONSERV FS, based in Wauconda, Ill., says 70 percent of his board is certified. "We recently went through a merger, and this training was beneficial. People are reading about co-ops being dissolved, and members are concerned. We owe our stakeholders (members, employees and the community) to keep up with the changes and to

continued on page 31



GROWMARK Chairman Dan Kelly provides an overview of what makes a good co-op director during a director-certification meeting. About two-thirds of FS co-op directors have been involved in the program since it was launched in 2000. Photo courtesy GROWMARK.



Iowa Quality Beef opens Tama plant

Iowa has a third beef processing plant in operation with the re-opening of a now modernized plant in Tama. The plant is owned by 900 producer-members of the Iowa Quality Beef Supply Cooperative (see May-June 2003 *Rural Cooperatives* for more on this co-op). The opening was delayed from the original target date by construction snags and the need to raise some additional funds. The \$32 million project had been promoted by the Iowa Cattlemen's Association. The plant will initially process 1,200 to 1,500 cattle daily.

Indiana's Countrymark offers metered biodiesel blending

The first metered soy biodiesel-blending system in the nation has been introduced at Countrymark Cooperative's terminal at Jolietville near Indianapolis, Ind. The operation is considered a significant step in making the

distribution process seamless. Most others use a splash blending system to get the required mix. Joe Jobe, executive director of the National Biodiesel Board, says "having biodiesel available at large regional distribution terminals would cut transportation cost for biodiesel and lower the end price for consumers."

Countrymark sees this as the first step for its fuel distribution arm and plans to extend the service to its other terminals if it proves successful. Grants from the Indiana Soybean Board helped cover feasibility study costs and infrastructure improvements.

Videos, brochures promote Co-op Month in October

Looking for an effective, entertaining way to show and tell all about cooperatives? National Cooperative Bank's (NCB) award-winning "What is a Co-op? You'd be Surprised" brochure and video can do just that. Produced as a cooperative education project, the brochure and video illustrates the many benefits and remarkable diversity of today's cooperatives.

Inside the brochure, a stylized map pops up to illustrate how cooperative endeavors are interwoven throughout American society. The accompanying text spotlights the principles that generally guide a co-op's operation and outlines the business advantages of cooperative ventures.

The lively 20-minute video demonstrates how cooperatives across the country are part of everyday life in the 21st century. The video highlights child care, housing, credit union, agricultural, grocery and other cooperatives that help build a community.

Both brochure and video are available at no charge. To obtain copies, e-mail your request to marcom@ncb.coop.

Co-op Development Forum slated for Minneapolis

The National Cooperative Business Association's 9th Annual Cooperative Development Forum, to be held Nov. 5-7 in Minneapolis, will bring together cooperative development professionals to discuss the role of cooperatives in rural and urban economic development.

Keynote speakers Paul Hazen, president and CEO of NCBA, and Jean-Yves Lord, executive director of the Canadian Cooperative Association, will discuss cooperative development in their respective countries. Panel sessions will feature cooperatives that have established other new co-ops and steps to create a community culture for cooperative development.

In stakeholder sessions about housing co-ops, sustainable forestry cooperatives, value-added agricultural cooperatives, urban cooperative development and coffee cooperatives, participants will explore issues and strategies for cooperative development. A special pre-conference session addresses structural change and non-member capital strategies. Following the con-



Countrymark Cooperative has opened the nation's first metered soy biodiesel-blending system. Photo courtesy Countrymark

ference, participants can join tours of Minneapolis cooperatives.

A limited number of scholarships are also available. The conference hotel is the Crowne Plaza Northstar. For more conference information, contact Leta Mach (202) 638-6222; e-mail: lmach@ncba.coop. Or visit the conference Web site: <http://www.ncba.coop/whatnew.cfm#conf>.

Minnesota law opens co-op membership to new investors

Minnesota's Cooperative Associations Act has been modified to combine portions of the state's traditional cooperative law with portions of the limited liability statute to create a new business entity for cooperatives. The new law allows all forms of cooperatives in the state to take on investor-members, in addition to traditional patron members. Investors may not necessarily purchase from the cooperative but may join it to earn a profit on their investment and to provide capital funds for coopera-

tive expansion. The measure was endorsed by the Minnesota Association of Cooperatives and was based on a similar legislation approved in Wyoming in 2002.

Michigan Sugar 4th co-op in Midwest Agri-Commodities

Saginaw-based Michigan Sugar Co. has become the fourth cooperative member of Midwest Agri-Commodities, a marketing arm formed in 1979. Midwest globally markets more than 12.3 million tons of beet pulp, beet molasses and desugared beet molasses to the livestock, dairy and poultry industries. The addition of Michigan Sugar should push the marketing volume to 1.5 million tons.

Chuck Hufford, president of Midwest, called the arrangement a "win-win situation" for both the marketer and its cooperative members. "Domestically, Michigan Sugar provides us with important access to eastern United States customers and globally gives a transportation alternative to service

European agri-product clients."

Thomas Zimmer, Michigan Sugar's chairman, said the organizations were "mutually compatible with common objectives and commitment to success in the agri-products marketplace." Other owners are American Crystal Sugar Co., Minn-Dak Farmers Cooperative and Southern Minnesota Beet Sugar Cooperative.

Breeding to head Kansas Co-op Council

Patrick Breeding, former vice chairman of the Kansas Cooperative Council, had been named the organization's chairman following the resignation of Dave Andra, Danville Co-op, due to illness. Andra, a director since 1988, had been re-elected chairman at the annual meeting in March. The council is studying an alliance with Kansas Farmers Service Association to secure managerial, operational and secretarial services following the death of Joe Lieber, who had been the council's executive officer.

Commentary *continued from page 2*

Wyoming and Minnesota recently accepted the "outside equity" argument and enacted new state laws permitting entities still called "cooperatives" to have substantial non-user involvement. In both states, a "cooperative" can have up to 85 percent of its earnings allocated to investors on the basis of investment. And up to 85 percent of the voting control can be in the hands of non-patron members, although patrons are guaranteed the right to select directors with at least 50 percent of the voting power on the board.

Whether entities, which choose to

have this large non-patron presence, should be truly considered "cooperatives" is doubtful. This holds true even if a good portion of the non-patron interests are held by users. What distinguishes a cooperative from other forms of business is not "who" owns and controls it and is entitled to the earnings but "how" these attributes are allocated. In a cooperative, it is based on use, not investment.

The task of cooperative leaders, members, directors and advisors—as is our's here at USDA—is to take a careful look at where cooperatives are,

where they are going and what they need to maintain their critical role for farmers and rural America. The essential character and strengths of cooperatives must be preserved while responding to new economic and business forces. The challenge for the cooperative community will be to make informed and wise decisions with positive and lasting impacts on cooperatives, farmers and rural communities.

James Haskell, Acting Deputy Administrator, USDA Rural Business-Cooperative Service

Apple industry *continued from page 7*

Holding a number of control variables constant, the survey analysis showed that MACMA members appear to reap substantial fringe benefits from their membership in the bargaining cooper-

ative. These benefits include having input into contract terms and public policy that affects them, as well as finding marketing assistance if needed.

Overall, the researchers conclude that

strong laws that enable the establishment of bargaining cooperatives, although not panaceas, help growers to maintain their operations in the face of structural change in the apple industry. ■

Bailey to head Co-op Development Foundation

The Cooperative Development Foundation in Washington, D.C., has a new executive director: Elizabeth Bailey, who served in the administrations of three former Wisconsin governors and was former director for development for the National Guard Association of the USA. She replaces Judy Ziewacz, who earlier this year became deputy secretary of the Wisconsin Department of Agriculture, Trade and Consumer Protection.

Court OKs ADM buying MCP, spinoff venture

The disputed sale of Minnesota Corn Processors (MCP) in Marshall,

Minn., to Archer Daniels Midland (ADM) of Decatur, Ill., has cleared its final hurdle with approval of the deal by a federal judge in Washington, D.C. Despite objections from a group of law professors and economists, District Judge John Bates said the modified agreement met U. S. Justice Department objections and the sale was in the public interest. To ease market-concentration concerns, the pact requires MCP to dissolve its joint venture with Corn Products International to market corn syrup and high-fructose corn syrup. The conditions had been met at the end of 2002. ADM had gained a strong share in the syrup and ethanol markets from purchasing MCP and its joint venture.

ADM has been operating MCP since last September.

Calcot, Ocean Spray among co-ops with new leaders

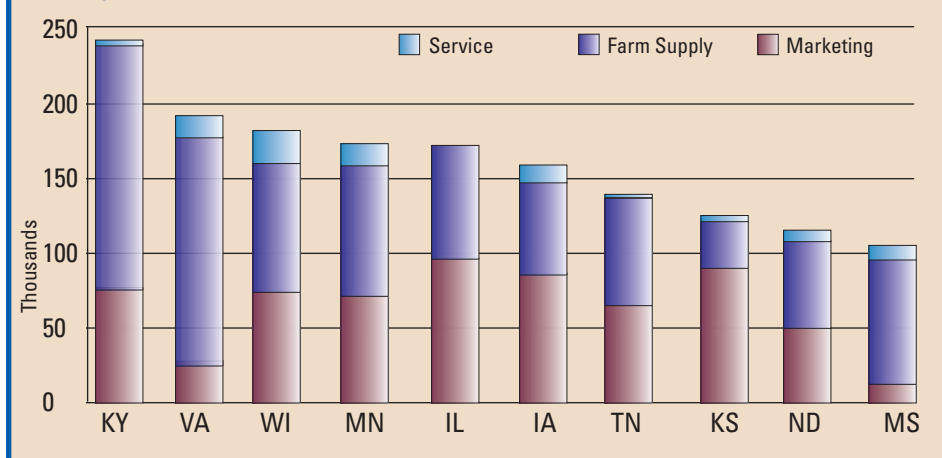
Marketing cooperatives operating in different geographical areas of the nation have made leadership changes. New leaders include:

■ David Farley's tenure as chief executive officer at Calcot, the West Coast's largest cotton marketing cooperative, lasted only eight months. He has been replaced by Robert Norris, the co-op's executive vice president and a 30-year employee of Calcot.

■ Ocean Spray, the Massachusetts-based cranberry marketer, confirmed its earlier interim choice of Randy

Minnesota leads the nation *continued from page 19*

Figure 3—Cooperatives' memberships by function, ten leading states, 2001



fertilizer and crop protectants. Wisconsin was the top cooperative state for sales of miscellaneous farm supplies and was second for petroleum.

Leaders in number of cooperatives

Minnesota was home to the largest number of cooperative headquarters, with 293, followed by North Dakota with 239 and Texas with 238 (figure 2). The same three states also had the most cooperatives in 1999, 1997 and 1995. The top 10 states had 56 percent of all cooperative headquarters, 57 percent of all marketing coopera-

tives, 51 percent of farm supply cooperatives and 68 percent of service cooperatives.

Minnesota and North Dakota both had about the same number of marketing and farm supply cooperatives. Texas by far had the most service cooperatives.

By individual products, North Dakota had the most dry bean/pea, grain/oilseed and livestock cooperatives. Texas had the most cotton and rice cooperatives. California had the most fresh fruit/vegetable, nut, and poultry cooperatives. Minnesota had the most farm supply cooperatives.

Co-op membership leaders

Kentucky led the nation with 242,873 farmers with cooperative memberships, followed by Virginia and Wisconsin. The top 10 states for cooperative memberships are shown in figure 3. For the top 10 states, 54 percent of all cooperative memberships are in these states, 58 percent of all cooperative marketing memberships, 51 percent of farm supply and 48 percent of service.

Kentucky led all states in tobacco cooperative memberships. Virginia had the most nut cooperative memberships and was second in farm supply members. Wisconsin had the most milk/milk products and livestock memberships.

Individual state data for farmer cooperatives are collected every other year by USDA Rural Business-Cooperative Service. The survey asks for membership, sales and marketing data by state. The data from the 2001 survey were used to develop this report. A complete summary of state-by-state cooperative activity is available in the new USDA publication, *Farmer Cooperative Statistics, 2001*, RBS Service Report 61. To order, call (202) 720-8381, or e-mail jon.hall@usda.gov or download at www.rurdev.usda.gov/rbs/pub/sr61.pdf. ■

Papadellis as its permanent CEO and president.

■ At Alto Dairy, based at Waupun, Wis., the board has selected Rich Scheurman, a 15-year veteran of the dairy industry, to be its new president.

■ Select Sires at Plain City, Ohio, has hired Steve Crea as its chief financial officer to manage its business, finance, human resources and management information systems development.

■ Kevin Hall, a Nebraska farmer-rancher, is the new chairman of the board of Western Sugar Cooperative, replacing Rick Dorn of Billings, Mont., who steered the formation of the sugar cooperative and its purchase of the Western Sugar Company assets.

Bongards Creameries buys LOL's Perham operation

Bongards Creameries, with extensive experience in manufacturing natural and processed cheese in Minnesota, has purchased Land O'Lakes' cheese manufacturing facility at Perham, Minn. LOL had earlier announced plans to close the plant. Roger Engleman, Bongards general manager, said he was excited about the opportunity to reopen the plant noted for its cheese and whey products and to retain jobs in the community. Bongards had \$163 million in sales last year to the consumer, food service and industrial cheese and whey markets.

Bushel 42 Pasta closes

Lacking a partner, Bushel 42 Pasta at Crosby, N.D., which is owned by 227 durum wheat growers in North Dakota and eastern Montana, closed in late July and laid off 50 employees. Company officials said it would seek to sell or lease the plant. CEO Keith Olson said the cooperative would

seek ways to get a return for the shareholders.

Agway energy firm offers green power

Customers of Agway Energy Products in upstate New York will be offered the option of buying green power in the service territories of Niagara Mohawk and New York State Electric & Gas, where it already operates as an energy supplier. Agway has become a partner with Sterling Planet of Alphretta, Ga., one of the three green marketers participating in Niagara Mohawk's renewable energy program. Agway will offer energy derived from wind, water and biomass to customers willing to pay 1.5 cents per kilowatt-hour in addition to regular electrical charges. Agway filed for Chapter 11 bankruptcy reorganization last October but the energy division was not part of the filing.

LOL Farmland Feed eyes ethanol co-products market

Land O'Lakes Farmland Feed LLC is working with corn and livestock producers and numerous marketing initiatives to enhance profitability through marketing and sale of ethanol co-products. Distillers dried grain with solubles and wet distillers grain have been recognized as practical and cost-efficient feed supplements for cattle, swine and poultry. The market has materialized in the past three years. Ethanol production is expected to increase dramatically over the next 5 to 10 years.

In another development, the feed firm is planning to build a new, 300-cow dairy research facility at its center near Gray Summit, Mo. "It will go a

long way in ensuring that we sustain our leadership in research and development," said Bob DeGregorio, president of the feed company. Construction should be completed by year's end. It will replace an existing dairy research unit at Gray Summit plus facilities at Fort Dodge, Iowa.

Sun-Maid, Licente Join for Canadian Juice Line

The Sun-Maid brand behind the popular California marketing cooperative's raisins and dried fruit products will begin to appear on a Canadian firm's new line of fruit juice drinks being introduced late this summer. A. Licente Inc., based in Rougemont, Quebec, is a Canadian leader in the production of pure fruit drinks. It has signed a licensing agreement with California's Sun-Maid Growers to produce and market the new line under the cooperative's brand in Canada. The firm is the main subsidiary of Licente Industries, Inc., which markets its products under a variety of trademarks, including Sunkist.

Riceland Foods, Cargill in lecithin marketing alliance

A strategic alliance to manufacture, market and sell lecithin products to food, pharmaceutical and technical customers worldwide has been formed by Riceland Foods of Stuttgart, Ark., and Cargill, Minneapolis, Minn. The agreement was to take effect Sept. 1. Riceland will continue producing de-oiled lecithin, as it has for the past 25 years, and Cargill will market and distribute it. Riceland President Richard Bell said the deal would allow the cooperative to operate its facilities more efficiently and provide a source of conventional (non-GM) crude lecithin for processing.

GROWMARK certification *continued from page 27*

continue our education. Dysfunctional companies have dysfunctional directors. Directors have to know the consequences of their decisions."

Board education doesn't only mean better decisions, according to Weidner.

It helps the board function as a team. "We can't have different agendas."

Lynn Haseley, board chairman and president of Ag-Land FS Inc., based in Pekin, Ill., says "We expect our crops people, fuel and LP-gas drivers

to pursue certification. Director certification is one more way we can show patrons and employees our dedication and care." Haseley expects all 12 members of his board to be certified by September. ■

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