

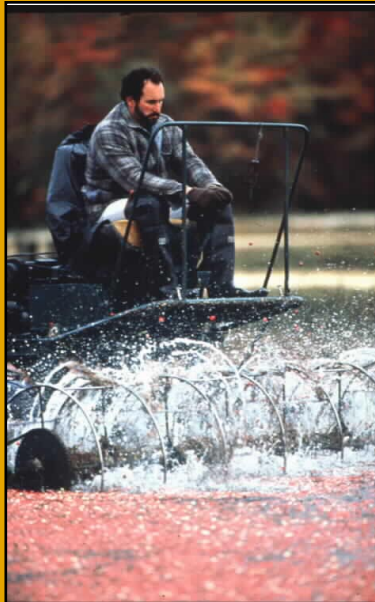


United States  
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Rural Business-  
Cooperative  
Service

Cooperative  
Information Report 5

# Cooperatives in Agribusiness



# Abstract

This publication is written for audiences at the secondary and postsecondary levels, or for anyone interested in agricultural cooperatives. It provides a description and brief history of cooperatives, and discusses their relationship with agribusiness. This material describes the different types of cooperatives as well as their structural and organizational characteristics, and explains how they are governed and financed. It discusses career opportunities in the cooperative field, and explores the future of cooperatives in a constantly changing business environment. Chapters 1-9 are each followed by brief chapter review questions.

Keywords: cooperatives, agribusiness, principles, practices, organization, structure, finance, careers.

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## Cooperatives in Agribusiness

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How Agribusiness Affects Our Lives

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Some of the many branded food and beverage items produced by agricultural cooperatives.

**Y**ou might not be familiar with the terms "cooperative" or "agribusiness," but chances are you benefit on a daily basis from the products and services they provide.

We all reap the benefits of agribusiness, from the food we eat to the clothes we wear. Whether you are a student, executive, technology expert, or farmer, you are first and foremost a consumer. America relies upon agribusiness to feed, clothe, and house her 284 million citizens. The efficient production, processing, and marketing of food and fiber is what agribusiness is all about.

Agribusiness is just what the name implies..agriculture in business. When you buy chicken, beef, pork, vegetables, fruit, juice, eggs, milk, or similar products at your supermarket, you depend on agribusiness. In addition to supplying us with these basic necessities, agribusiness also provides jobs and income for nearly one-fifth of America's workforce. In one way or another, we all depend upon agribusiness to fulfill our needs. Because of this interdependence, agribusiness is our business.

Cooperatives provide many services and products. Did you drink any Florida's Natural orange juice or Ocean Spray cranberry juice today? You might have spread Land O' Lakes butter or Welch's grape jelly on your toast. Maybe you ate some Sun-Maid raisins or a Sunkist orange as a snack, or packed Tillamook or Cabot cheese or Snyder's potato chips in your lunch. Your dinner tonight might include Farmland ham and Birdseye vegetables. These well-known foods and beverages all have one thing in common: they are all produced by farmer cooperatives. You might be surprised to discover how many of the brand-name items that you use or consume every day come from cooperatives.

What makes these products unique is that the farmers who produced them are also the owners of the company that helped to bring them to your table. A cooperative is simply a type of business that is owned and controlled by the people who use its services.

But cooperatives don't simply provide food and drinks for our tables. Many cooperatives provide goods or services such as utilities, savings and loan services, insurance, and farm supplies to rural and urban residents. You might recognize some of these cooperatives by name, such as CoBank, Central Electric Power Cooperative, CHS Cooperatives, or Southern States. They are just a few of the nearly 48,000 cooperatives in the United States that generate more than \$120 billion in annual economic activity for about 100 million members.

Cooperatives have a significant impact on the employment situations of rural Americans as well. Although the number of farmer cooperatives has declined in recent years to about 3,346, they still accounted for 254,658 full-time, part-time, and seasonal employees in 2000. The decline in the overall number of cooperatives reflects the ongoing trend of mergers, consolidations, and acquisitions. However, there are more members (3.09



million) of farm cooperatives in the United States than there are farmers (more than 2 million), because many farmers belong to more than one cooperative. So even though the number of cooperatives has decreased, farmers still depend on them. Twenty-seven percent of total farm marketings in 1999 was attributed to cooperatives.

Consider that almost 11 million people in rural areas relied on rural electric cooperatives for their power in 2000, while 569 rural credit unions helped their 3.8 million members save more than \$18 billion. Likewise, 1.4 million subscriber/members received their telephone service from 220 rural telephone cooperatives. Thousands of isolated homes access the Internet in this age of technology, thanks in large part to the service provided by these utility cooperatives.

These numbers sound staggering, but the contribution of cooperative business to rural America is immense, and cannot be measured by statistics or dollars alone. Farmers are not the only ones who reap the rewards



Agribusiness and membership in cooperatives is a way of life that is often passed from one generation to the next in rural families. Photo courtesy Farmland

of cooperative businesses. Cooperative housing helps people access better living conditions while connecting them with a support network of others with similar needs and interests. Both rural and urban residents belong to group medical, hospital, or health associations. Many use cooperative child-care services, read Associated Press news articles, and belong to a state affiliate of the American Automobile Association or local credit union. These people are receiving the economic benefits of the cooperative, in proportion to their use of it. Cooperatives help bring people together to acquire goods or services not otherwise available to individuals. By joining a cooperative and taking advantage of economies of scale and combined buying power, members realize greater savings and greater return on their investments. Moreover, members control the direction and growth of their business, with a vested interest in each business decision made by that cooperative.

The cooperative form of business is useful to people regardless of where they live or how they earn their living. As these examples illustrate, the life of every American is touched at some time or another by cooperative enterprise. For these reasons, it is important for each of us to better understand what cooperatives are, how they operate, and how they relate to agribusiness.

## Chapter 1 Review

- 1 Name three cooperatives that produce brand name consumer goods.
- 2 How many farmer-owned cooperatives are there in the United States?  
How many cooperatives of all types are there in the United States?

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## Ways of Doing Business

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Cooperative member-owners are partners in the business.

Our private enterprise system has three basic types of business organization: the individually owned business, the partnership, and the corporation. An increasingly popular type of business ownership is called a limited liability company (LLC). Cooperatives not only have some things in common with each of these business types, but also differ greatly in some respects.

Each type of business organization will be discussed in more detail later (table 1), but it is important to note that although some cooperatives are operated informally, most are classified as corporations.

### Individually Owned

The individually owned business is more prevalent in farming than in any other segment of our economy. As owner-operators, farmers make managerial decisions and assume the risks. A farmer may choose to plant 100 acres of wheat one season, but may also suffer the consequences if the crop is damaged by drought. The farmer-entrepreneur is not only the employer but also contributes much of the physical labor required.

Farms are achieving ever-higher levels of efficiency and production with improved machinery and increasingly large acreage. Many other industries typically benefit from additional employee resources and a division of labor uncharacteristic in farming. A farmer is a combined owner, manager, and laborer. Although some farms are family-owned corporations, most are still individual operations.

There are distinct advantages and disadvantages to an individually owned business that must be considered when weighing the business structure options:

Table 1—Comparison of Methods of Doing Business Corporation

Features Compared	Individual	Partnership	Liability Company	Corporation	
				Investor-Oriented	Cooperative
Who uses the services?	Non-owner customers	Generally non-customers	Generally non-customers	Generally non-customers	Chiefly the owner patrons
Who owns the business?	The individual	The partners	The member-owners	The stockholders	The member-patrons
Who votes?	None necessary	The partners	The member-owners	Common stockholders	The member-patrons
How is voting done?	None necessary	Usually by partners' share in capital	Usually by member-owners' share in capital	By shares of common stock	Usually one member, one-vote
Who determines policies?	The individual	The partners	The member-owners	Common stockholders and directors	The member-patrons and directors
Are returns on ownership capital limited?	No	No	No	No	Usually 8%
Who gets the operating proceeds?	The individual	The partners, based on mutual agreement	The member-owners, based on mutual agreement	The stockholders in proportion to stock held	The patrons on a patronage basis

### Pros

1. It is easy to control—the owner's judgment
2. Any profits belong solely to the owner and need .

### Cons

1. Any losses are borne by the owner—they cannot be shared.
2. Capital is limited by what the owner can provide or borrow. This, in turn, can limit the size of the business.

## Partnership

A partnership business is jointly owned and operated by two or more people. They provide or borrow the capital needed to start and operate the business, make decisions by mutual agreement, and share the responsibility of repaying the debts. In essence, they divide the income and share the losses.

Farming partnerships are common, especially between parents and their children. When a child reaches a responsible age, the parent may furnish the land and facilities and the son or daughter may provide much of the manual labor. Each partner might own livestock separately or purchase supplies individually, and yet still share other operating expenses.

The partnership has major advantages and disadvantages compared with individual proprietorship:

### Pros

1. The amount of available capital is usually greater.
2. Several partners may bring special skills and training into the business.

### Cons

1. Each partner is liable for any all debts of the partnership (is known as limited liability) .
2. If one of the partners dies or wishes to leave the organization, it must be dissolved and a new partnership formed.



Cooperatives often process their members crops and livestock into value-added products, as occurs at this sugarbeet processing facility in Minnesota. Photo courtesy American Crystal Sugar

## Corporation

There are two kinds of corporations in the United States: investor-owned firms (IOFs) and cooperatives. Both business organizations are state-chartered and are usually organized under the laws of the state in which they have their main office.

### Investor-owned Firm

An investor-owned firm (IOF) is operated as a for-profit business. Capital funds are obtained by issuing shares of stock that can be purchased by investors for their profit-making potential. The price of such stocks can fluctuate from day to day, depending on the current stock exchange activity.

Stock shares of many IOFs are bought and sold daily, or "traded," on stock exchanges, such as the New York Stock Exchange. A stock exchange is actually a form of cooperative. Members are stockbrokers -- people or businesses who buy and sell stock for their customers, who may be corporations, partnerships, or individuals.

Because stock prices can climb or fall so rapidly, stockbrokers must closely monitor the activity of their customers' stock shares. In fact, most daily

newspapers in major cities throughout the world publish stock market share prices and number of shares sold. Most television news channels feature a stock market segment in their daily programs and some continuous news programs such as CNN Headline News also display a constant stock market "window" on their viewing screen.

IOFs supplement the capital they derive from the sale of stock shares by borrowing—either from banks or other financial institutions, or from individuals.

Corporations have several advantages over partnerships. They have perpetual existence, limited liability for individual shareholders, and transferability of shares.

An IOF is a legal entity—an artificial person created when the state issues the corporation a charter to do business. Therefore, if one or more of the investors wants to withdraw from the business, it can still exist and operate. This is called "perpetual existence." Because stockholders have limited liability, if the corporation fails, they only lose the amount of their investment.

Shares of a business can be bought and sold or transferred. Any individual or business can buy or sell shares of an IOF without approval from other investors. The capital base of a corporation can be very broad. Thousands of stockholders may have invested in the corporation by purchasing shares of stock.

#### Cooperative Corporation

A cooperative corporation is also a state-chartered business, like an IOF. It closely resembles any other firm that does the same type of things or performs similar services. Structurally, the cooperative corporation looks about the same as any other corporation. It employs the same kind of personnel in similar jobs. It usually charges the same price for production supplies, and may pay the same price for products marketed through it such as grain, dairy products, cotton, fruit, vegetables, honey, or livestock.

However, unlike an IOF, cooperatives exist to provide economic services to their member-users, rather than just to generate a return on investment. Cooperatives, like other businesses, rely on profits to sustain the organization and ensure that it is able to provide necessary programs and services to its members. Part or all of its capital comes from members rather than from outside investors. This capital is obtained in one of three ways: (1) through membership fees or sale of stock, (2) by agreement with members to withhold a portion of net income based on patronage, or (3) through assessments such as per-unit of product sold or purchased, per-acre, per-cow, and so on.

Cooperative stock is not created for speculative gain purposes, and therefore is not generally traded on stock exchanges. In typical open-membership cooperatives, there is little or no prospect for an increase in the market value of cooperative stock as a reflection of corporate earnings. This is because net income is distributed on the basis of patronage, rather than on the amount of stock owned. Although cooperative stock signifies ownership, it usually only represents one vote per member, regardless of the amount of stock that owner holds. Further, the stock usually carries a fixed rate of return not to exceed 8 percent.

The stock purchases of new generation cooperative members are associated with delivery rights that represent a commitment to deliver raw products to the cooperative. These cooperatives often have an internal market for trading of these shares which may appreciate or depreciate in value depending upon performance in value-added activity.

Member-owners in both open and closed membership cooperatives are also the patrons or users of the cooperative, and are largely responsible for financing their business. However, like other businesses, cooperatives also rely on various forms of borrowed capital in addition to the capital obtained from the member-patrons. The Farm Credit System is a major source of that outside capital.

Like IOFs, cooperatives are mostly incorporated to provide their member-patrons the shelter of limited liability if the business should fail. In rare instances, small cooperatives that provide a limited number of services may choose to operate as an unincorporated business. Under such circumstances, the cooperative's legal status is similar to a partnership.



Liability is unlimited, and the death, entry, or withdrawal of a member makes it necessary to restate (usually in writing) the nature of the relationship between members.

### Limited Liability Company

The limited liability company (LLC) is a hybrid business structure that combines characteristics of both a partnership and a corporation. It combines the single-tax treatment of a partnership with the limited personal liability of a corporation. As in a cooperative, LLC owners are called members.

It takes at least two members to form an LLC. Its owners have no restrictions concerning their role in the business. Contrary to common cooperative practice, they are free to become involved in the management of the company. They usually provide the equity capital, but their voting rights are determined by an operating agreement, and not necessarily based on patronage.

In an LLC, members share the profits and losses according to the established operating agreement. However, this percentage of responsibility is usually based on the amount of capital invested and the nature of the work performed by each member. The operating agreement also affords members the freedom to determine how the income is to be divided. Perhaps one disadvantage of an LLC is the significant expense incurred at startup. A substantial amount of legal work, including the filing of two documents with the Secretary of State, is required to get an LLC established and operating. These required documents consist of the articles of organization and the operating agreement.

### Chapter 2 Review

1. Discuss the four ways of doing business in the United States.
2. Where do cooperatives most often fit and for what reasons?

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## What Is A Cooperative?

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Cooperative board members conduct regular meetings.

Cooperatives are a different approach to reaching a common goal. Members work together to achieve goals that they would not be able to achieve individually. Some of the differences of cooperatives are in overall purpose, how they operate, in their governance, and how they are controlled.

There are other differences and distinctive characteristics that set cooperatives apart from other types of businesses. These differences become apparent when attempting to define a cooperative.

Any definition of a cooperative requires two key ingredients: it must be broadly applicable and yet sufficiently concise to be easily understood and remembered by the typical cooperative member. A simple, workable definition is:

"A cooperative is a user-owned and democratically controlled business in which benefits are received in proportion to use."

Such a definition captures the essence of what a cooperative is, but even this widely accepted definition requires elaboration to meet a wide array of legal requirements, while still describing the diversity of cooperatives. This basic definition, for example, does not answer three fundamental questions: (1) why is a cooperative started; (2) what is its purpose; and (3) how is it different from other forms of business?

## Why Is a Cooperative Started?

Every cooperative has been started for one or more of the following reasons:

- 1 to improve bargaining power when dealing with other businesses;
- 2 to reduce costs;
- 3 to obtain products or services not otherwise attainable as an individual;
- 4 to gain market access or enhance marketing opportunities;
- 5 to improve product or service quality; and
- 6 to increase income.

Of course, the underlying rationale for a farmer's use of cooperatives is to increase income. Initially, cooperatives sought to increase farmers' bargaining power with the much larger businesses that sold them supplies and marketed their products. More recently, cooperatives have expanded their activities to fulfill the needs of a changing agricultural environment, and are trying to help their members take advantage of additional opportunities to increase their income.

## What Is a Cooperative's Purpose?

A cooperative's sole purpose is to serve members' needs. Whether those needs reflect some or all six reasons, cooperative member-owners have the freedom to tailor their business to fit those needs. This requires a continuing, fluid dialog between members and management, and flexibility in the functions and operations of the cooperative. Just as in any business, member needs and requirements change based on both external market factors and personal choices.

Although the purpose allows for a certain amount of flexibility in direction, it does not permit a cooperative to strike off "on its own," seeking to perpetuate itself as a business entity or to fulfill the personal ambitions of its management. Members must understand the cooperative's purpose of meeting their needs cannot be in conflict with serving in the public interest. To do so would go against the cooperative's basic mission. The cooperative's purpose must remain compatible with the characteristics that make it a unique business.

## How Is a Cooperative Different?

Understanding a cooperative requires one to clearly distinguish between the principles that create its uniqueness and other characteristics that may be desired "principles," but are based on common sense. For example, "give full weight and measure" and "duty to educate" have been described as cooperative principles, because honesty and education are so critical to success. But these principles (better called practices) don't distinguish cooperatives from other businesses.

Discussion of cooperative principles and practices, therefore, should be prefaced with a definition of terms. Understanding comes easiest by defining a cooperative principle:

"A cooperative principle is an underlying doctrine or tenet that defines or identifies a distinctive characteristic."

Various writers over the last century or so have observed and analyzed the application of cooperative principles. Three key principles emerge as being recognized and widely practiced for more than 150 years. These principles are more than good practices, policies, or common sense. They distinguish a cooperative from another kind of business. More importantly, they are recognized in federal and state statutes as criteria for a business to qualify as a cooperative.

The three contemporary cooperative principles are:

- user-owned;
- user-controlled; and
- user-benefits.

### User-owned

The people who use the cooperatives own it, and are responsible for providing the necessary financial backing to keep it operating.

### User-controlled

The first principle characterizes how a cooperative fulfills its purpose. User-controlled is a governance principle, an important distinction.

Because they own the cooperative, members also control its activities through voting privileges. In most instances, cooperatives have a "one member, one vote" policy, regardless of how much equity members own or how much they patronize the organization. Assigning each member only one vote ensures the democratic control of the cooperative, although there are exceptions to this policy that still allow for equitable voting. A few cooperatives have experienced such a shift to heterogeneous membership and resulting disparity of use that voting proportional to use has been adopted with established limits. The number of additional votes is usually limited, for example, thus protecting the interests of the membership as a whole. Such a departure from equal voting rights recognizes that the glue binding members to the concept of unity remains mutually beneficial. Voting according to volume at the secondary (regional) cooperative level is often necessary to support equitable service at the primary level.

#### User-benefits

Members unite in a cooperative to get services otherwise not available, to get quality supplies on a timely basis, to have access to markets, or for other mutually beneficial reasons. Acting together gives members the advantages of economies of size and bargaining power, and allows them to share the cooperative's earnings on a basis proportionate to their use. These profits are returned in the form of patronage refunds. The cooperative attempts to fulfill member needs at the least possible cost. However, determining true costs at the point of transaction is practically impossible. Like other businesses, cooperatives charge competitive market prices and seek to generate sufficient income to cover costs and meet continuing operating capital needs. Year-end profits are distributed to members as patronage returns (cash and stock).

Members gain both directly and indirectly from belonging to a cooperative. They get an assured source of supplies and market for their products, which can directly increase their income. They also get a less tangible benefit because cooperatives serve as competitive yardsticks in the market by which the performances of other businesses are measured. Some members gain valuable leadership experience, business knowledge, and social recognition by serving on the board of directors. All of these

benefits accrue in proportion to how much members take advantage of what their cooperative offers. It is logical, therefore, that members are obligated to provide financing in proportion to the use of the cooperative that produced those benefits. As a business, the cooperative has ordinary costs that member-owners are obligated to pay.

All of these principles focus on the user-member and set cooperatives apart from other types of businesses. Another aspect unique to cooperatives that defines how the member-owners (investors) receive returns on their capital investments is referred to as "limited return on equity capital."

#### Limited Return on Equity Capital

Members form a cooperative to get a service such as a source of production supplies, a market for their products, or a specialized service. Regardless of the service provided by the cooperative, members seek to get service and not a monetary return on their capital investment. Limiting the payment, if any, for members' capital used to operate the cooperative supports the principle of distributing benefits proportional to use. Returns to capital are subservient to the value of services received.

Cooperatives limiting returns on capital is recognized in both federal and state laws. They specify the maximum returns that may be paid on invested capital. Cooperatives may choose to pay any amount less than the maximum. In most state statutes, the limit on capital returns is fixed at 8 percent. The basic federal cooperative law, the Capper-Volstead Act, recognizes this principle by setting a maximum dividend rate of 8 percent per year if members vote on any basis other than one-member, one-vote.

A cooperative generally does not retain the surplus of gross income over expenses—called "profit" in an IOF. Instead, organization papers establish the obligation of the cooperative to return net margins to its patrons. With this obligation or legally binding contract in effect before any transaction with patrons takes place, the amounts involved never become corporate income. The net income, instead, belongs to patrons. This reduces the cooperative's operations to an at-cost basis. With no corporate

income, the cooperative has no corporate income tax liability. However, federal income tax laws set up criteria a cooperative must follow so that tax obligations are met at either the cooperative or patron level.

Some cooperatives may distribute patronage refunds only to members. In this case, the earnings generated from nonmembers are treated as corporate income by the cooperative and are subject to corporate income tax.

The Internal Revenue Code requires that 20 percent of the patronage refund be paid in cash, and that patrons consent to the cooperative treating the noncash portion as ordinary income. Under certain circumstances, some patrons are unwilling to recognize noncash allocations as part of their current income. In these cases, the cooperative pays the taxes at the corporate rate but can recover the tax payments when it later redeems its noncash allocations.

## Important Practices

Beyond the three basic principles, cooperatives adhere to many other important generic practices that are also followed by other businesses and organizations. Among these are:

### Open Membership

This policy is considered a key practice of food, health, housing, and other types of consumer cooperatives. Yet, this practice alone does not distinguish cooperatives from public stock corporations that allow anyone to buy stock. Agricultural cooperatives are limited to bona fide farmers or producers. Some of these have closed membership. The type and purpose of a cooperative will largely determine whether it can practice open membership.

### Continuing Member Education

Keeping owners educated and informed about their business is an important practice for any organization, but it is particularly vital to a cooperative for at least three reasons:

- 1 The democratic control principle, exercised through majority rule, requires that the entire membership be well informed to assure enlightened decisions;
- 2 The cooperative can be responsive to members' needs only if the members express those needs and recognize that they must bear the financial burden to fulfill those needs; and
- 3 Our public education system doesn't give much instruction on cooperatives in business and economic courses, so cooperatives must become their own educational institutions.

### Cooperation Among Cooperatives

The statement "Cooperation Among Cooperatives" was adopted by the International Cooperative Alliance in 1966, updated in 1995, and is still emphasized today as a "principle" that cooperatives should pursue to advance the concept of cooperation worldwide. In reality, it is also a good policy wherever members' resources can be used more effectively and the public interest served more efficiently.

It can be solidly argued that other generic principles, practices, and "good ideas" are necessary guiding forces for cooperatives. These recognized guidelines will undoubtedly change over time, reflecting efforts to adapt the cooperative structure to an ever-changing business environment.

### Chapter 3 Review

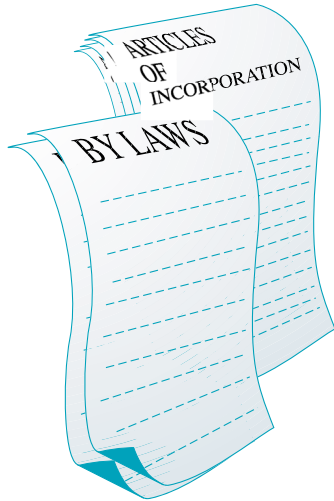
- 1 Cite three reasons why cooperatives are started.
- 2 What are the three contemporary cooperative principles?



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## How Cooperatives Are Organized

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Cooperative businesses are usually incorporated. The firm prepares a set of papers called Articles of Incorporation. These papers are then sent to the appropriate state office (usually the Secretary of State) for review, approval, and filing.

### Articles of Incorporation

The articles specify the name of the organization, its purpose, the scope of its authority, its place of business or headquarters, the number of directors, and whether the corporation's capital is stock or nonstock.

The articles define what the cooperative is going to do and how it is structured and governed.

An incorporated cooperative possesses the legal characteristics of an investor-oriented corporation. It differs primarily in the nature of the relationship between the organization and its owners and in how benefits are distributed.

### Bylaws

All corporations, including cooperatives, must also have a set of bylaws that tell how the corporation is going to operate. They are normally prepared concurrently with the articles of incorporation, because the two legal documents are interrelated. Both are prepared by an attorney or other legal counsel.

Bylaws are more descriptive and detailed than the articles of incorporation. They typically contain provisions for membership eligibility, elec-

tion of directors, annual meetings, officers' duties, voting rights, dues and assessments, and rate of dividends (if any) to be paid on member capital invested.

The exact nature of services to be provided by the cooperative for its members is not generally spelled out in the bylaws. Periodic changes may be made to accommodate altering needs. Some flexibility in bylaw provisions is needed because amending them is a lengthy, time-consuming process.

### Marketing Agreements

In a marketing cooperative, a marketing or membership agreement may be referred to in the bylaws as a separate document or included in a special section. A marketing agreement is a contract between the cooperative



Co-op board members must carefully review all new and revised bylaws, and should enlist the guidance of an attorney or qualified expert to help draft or review them.

and a member. It may require the member to deliver and market all production through the cooperative, produce a specific commodity on specific blocks of land, and follow production provisions.

The marketing agreement might also stipulate that the cooperative is obligated to receive and market the entire commodity delivered by the member under the terms of the contract.

## Membership

The relationship between a cooperative and its members often depends on the type of service performed.

Marketing associations, for instance, require a formal application and issue a membership certificate. In some instances, the application must be accompanied by payment of a membership fee, usually refundable if the member withdraws. In purchasing cooperatives, for instance, membership is identified with patronage. A patron making a purchase becomes eligible for membership by qualifying as a producer. A nonmember patron ordinarily is not affected by a cooperative's bylaws.

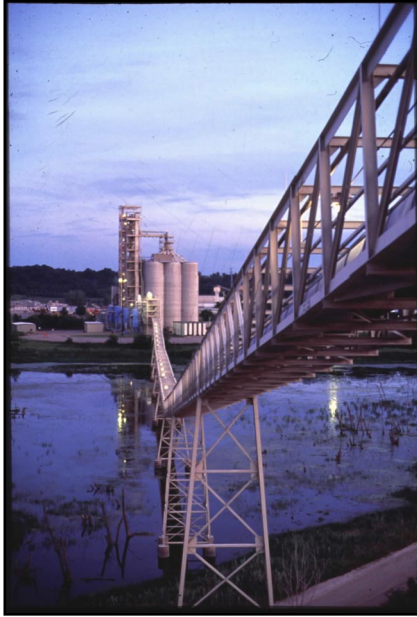
## Chapter 4 Review

1. What two legal documents are required to incorporate a cooperative?  
What is the purpose of each?
2. Describe two areas a marketing agreement covers.

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## Cooperative Structures

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Cooperatives operate sophisticated processing and handling facilities throughout the United States. Photo courtesy CHS

The geographic areas a cooperative serves and the makeup of its membership are elements that contribute to how it is classified by structure. For instance, they may be differentiated as local or regional cooperatives.

### Local Cooperative

A local association serves individual members in a community, county, or even several counties. These associations usually perform a limited number of the first steps involved in marketing. Farm supply cooperatives sales are at the retail level. Local associations often affiliate with other locals in a regional cooperative.

### Regional Cooperative

A regional cooperative usually serves an area of multiple counties, an entire state, or a number of states. Two important classifications of regional cooperatives are based entirely on the makeup of their membership: federated or centralized.

A federated regional serves smaller local cooperatives that are operated by local managers appointed by and responsible to local boards of directors. Each local is a separate corporate entity that owns a membership share that entitles it to vote on matters pertaining to the regional.

The federated cooperative (a federation) has its own chief executive officer and staff, and a board of directors elected by and representing the local associations.

While autonomous, local cooperatives depend by varying degree on the federation for a variety of services. In purchasing federations, the services may include research, procurement, and manufacturing. In marketing federations, the locals often want services such as federated advertising and product promotion, marketing, processing, handling surpluses, maintenance of product standards, and overall market contracts. Locals often look to their federations, for example, to arrange and coordinate shipments.

A regional centralized association is structurally similar to a small-scale local cooperative and has individual members. A centralized regional serves patrons in a large geographic area, such as a major portion of a state, an entire state, or all or parts of several states. A centralized regional has a central office, board of directors, and chief executive officer who supervises the entire operation. It may even have several branch offices. However, a centralized cooperative usually serves patrons within the relatively restricted membership area of a single state or region.

Both centralized and local associations obtain much of their capital from members who are investing as individuals. The federation is financed in part by its local member associations.

Federated cooperatives are often thought to be more practical for larger membership areas because of the distances involved. Problems of plant supervision, decisionmaking, and communication are augmented when locations are widely scattered.

Usually the local cooperative is small enough to permit frequent direct contact and the exchange of ideas, impressions, and information between members and employees. However, definitions vary and it is difficult to assign any single appropriate label in reference to size. A local cooperative may serve as few as 5 or 10 members or as many as several thousand.

Regardless of size, federated, centralized, and local cooperatives share the premise of democratic control. For example, each of several locals in

an area may have a director who also serves on the federated board. On the other hand, a centralized cooperative may elect its board of directors under a districting arrangement that assures a broad representation. Other centralized associations may use advisory committees that provide channels of communication to management directly or through branch operations. No matter what governance structure is adopted, elected individuals who are representative of the membership population represent each cooperative democratically.

Classification of cooperatives into federated, centralized, and local categories is largely for descriptive purposes. There are exceptions to the accepted classifications. For example, some regionals may have "mixed" membership comprised of individuals as well as local associations. In practice, the federation may have so many responsibilities and activities that it is essentially a centralized operation. Examples of these are management contracts with local affiliates, credit arrangements, and systems for distributing supplies directly from the federation to the member. In turn, branch associations in centralized cooperatives may have considerable freedom in their operations.

## Chapter 5 Review

1. Regional cooperatives can be classified according to the makeup of their membership. Discuss those two classifications.
3. Describe one characteristic regarding control that all cooperative structures have in common.

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## Who Runs the Cooperative Business?

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Successful cooperatives operate on sound business principles, just like any successful business.

Cooperatives follow accepted business procedures similar to those of other firms. They strive for efficiency, aim to meet or exceed competition, seek innovations, and are acutely cost-conscious.

Furthermore, cooperatives endeavor to maximize net income, minimize costs of acquisition and operation, and provide their services economically.

All successful cooperatives stress quality of products marketed, processed, purchased, and manufactured (such as feeds and fertilizers), as well as service.

Three groups of people are involved in the operation of a cooperative:

- members;
- directors; and
- managers and staff.

### Members

Members are the backbone of a cooperative. They organized it to serve their needs. Their support, through patronage and capital investment, keeps it economically healthy. Their expanding requirements shape the cooperative's future.

Because the cooperative is organized to provide for the needs of its members, channels must be established so that the cooperative can be informed of those needs. Several communication channels exist in a cooperative, the most important being the annual member meeting. This is where the members learn how their cooperative has performed during the year, via reports by the board chairman, the manager, and other key

officials. Members have the opportunity to ask questions, make suggestions, and request changes or new services. Members also elect new directors to replace those whose terms of office have expired or may reelect existing directors for another term.

In addition to their rights, member-patrons also have responsibilities. Because patronage keeps the cooperative alive, members must use its services. Growth can improve a cooperative's efficiency, so ideally members encourage neighbors and friends to patronize the cooperative. And because growth calls for new capital, members must provide at least part of it.

Members participate in the cooperative in other ways, such as choosing directors. While being selected as a director is an honor, it is also a serious responsibility. Cooperatives own assets worth thousands, even millions of dollars. Sales can even amount to millions of dollars each year. Those who serve as directors are responsible for administering funds placed in their care by the members who elected them to office.

Members participate in their cooperative in still other ways. They may serve on committees, call on prospective new members, or represent the cooperative in various community activities. However small the role they play, it is essential that members get involved in their association.

## Directors

Members elect directors at the annual member meeting. The board represents the members in all matters, sets policy, and is responsible to the members for the cooperative's efficiency.

Directors hire the manager, determine the salary, and outline the duties and authority of that position. The directors must also formally review the performance of the manager at least annually.

Directors decide how the cooperative will accomplish the purpose(s) for which it was created, and how its operations will be financed. For example, directors approve borrowing for fixed capital projects such as construction and land acquisition as well as for day-to-day operating expenses. Directors determine the patronage refund allocation, weighing legal



requirements against the need for reinvesting refunds to provide money for retiring old equities and still meet current capital needs. Directors ensure the cooperative maintains its character and they develop and adopt long-range business strategies.

Typically, directors receive nominal compensation for serving on the board, plus an allowance to cover out-of-pocket expenses incurred while conducting those duties.

### Manager and Staff

Directors decide the cooperative's general direction but the manager and immediate staff carry it out. The manager and staff make decisions, subject to board review, that realize the basic objective of serving members effectively.

As cooperatives grow in size, variety of services offered, and number of patrons served, they must expand their management team to include specialists in various fields such as member relations, communications, governmental and public affairs, legal services, personnel relations, accounting, and transportation. Cooperatives may hire employees with special knowledge of the various commodities marketed, purchased, or provided for members such as milk, butter, eggs, fruit, feed, seed, fertilizer, or electricity. Under ideal conditions, the manager's principal tasks are planning, reporting to the board of directors, conferring with key supervisors, maintaining good organizational relations, and controlling the cooperative's operations.

A major problem of large cooperatives is communication with members. Often in a large cooperative, the manager and key staff are known personally by relatively few patrons. The only time management is seen by many members is at the annual meeting. But this large affair allows little time for conversation with members. In an effort to stay in more frequent contact with members, these cooperatives often conduct regional or district meetings during the year.

In a relatively small or local cooperative, it can be fairly easy to maintain good relations between the cooperative and its members. The manager often maintains personal contact, keeping members informed of their

cooperative's progress and activities. The manager can personally encourage members to communicate their problems, needs, and evaluation of the cooperative services they receive.

As the intermediary between staff and the board of directors, the manager must deliver reports at board meetings on the activities of the association, outlining any special problems, operational changes, and pertinent financial matters.

Each year, the manager presents an operating plan and budget for the coming year. It is subject to approval by the board of directors and is often a joint product of the manager and the board. Periodically, the manager reviews actual performance with the board against budget projections, and explains variations in performance.

At staff meetings, the manager discusses operating procedures and problems with key employees and helps familiarize them with cooperative policies and objectives, interdepartmental relationships, and individual responsibilities.

Quite often, the only cooperative employee a member encounters over a period of months is a billing clerk, cashier, truck driver, field representative, or a warehouse employee who loads supplies into the member's vehicle. Therefore, many cooperatives have regular training programs to help employees learn how their cooperative works as well as general principles and practices. Actually, these workers are the employees of members, because members own the cooperative. Through their efficiency and friendliness, well-trained employees attract patronage and build favorable attitudes toward the cooperative, both as a business and as a desirable institution.

## Chapter 6 Review

- 1 Describe the three groups of people involved in a cooperative, and discuss their respective roles.
- 2 When and how are directors selected?

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## How Cooperatives Are Financed

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Cooperative owner-members in the United States finance these businesses by using all the standard methods employed by other corporations, plus a few unique to cooperatives.

### Capital Structure

Credit Unions are cooperatives.

If the association is a capital stock organization, members receive stock certificates as evidence of their ownership interest. More than one type of stock may be issued, but usually no more than two are necessary. Most stock cooperatives issue one share of common membership stock per member. Preferred stock may be issued to show additional capital contributions.

Common stock is usually the voting stock, while preferred stock is generally nonvoting.

Noncapital stock associations issue some kind of certificate (sometimes a certificate of equity) to show capital contributions of members. Many nonstock cooperatives raise some or most of their original member capital via a membership fee.

The capital structure is usually kept simple. If stock is issued, par value is kept low at \$5, \$10, or \$20, for example. Shares of this size are easier to sell, transfer, or pay off than shares of higher value.

### Capital Needs

The total amount of capital needed by a cooperative depends on many different factors. Some influencing factors include: the business volume, services provided, physical facilities required, the nature of its competition, seasonality of the commodities handled, and degree of risk required

in the day-to-day business. Whether the total amount of capital required is minimal or substantial, it is normally related to the number of members and volume of business conducted.

Two kinds of capital are used to sustain a cooperative—fixed and operating. Fixed capital is money used to buy such things as land, buildings, and equipment (fixed, tangible assets). Operating capital keeps the business going on a daily basis. Some operating expenses may include: advancing members money on products marketed for them, buying farm production supplies, paying utility bills, paying employees, and buying operating supplies such as packing cartons and office supplies.

There are three important sources of obtaining capital:

- Members, who invest in the cooperative to obtain needed services.
- Nonmember patrons, other cooperatives, marketing and supply companies, and individuals that invest in the cooperative to earn dividends or because they are interested in the welfare of the cooperative.
- Loans from such lending agencies as a CoBank (part of the Farm Credit System), a commercial bank, or one of a number of government agencies.

Some cooperatives also obtain financing from their wholesale suppliers and other creditors, based on the amount of their purchases. Marketing cooperatives obtain interim financing that corresponds with the time lag between receipt of the commodity from member-patrons and actual settlement with them.

### Member Capital

Cooperative members must realize that launching a business requires substantial startup money. Because they are the owners and expect to reap the benefits of the business, they are obligated to finance a major portion of the startup costs. Hopefully once the cooperative is operating, it will generate sufficient funds to perpetuate itself. But occasionally, members may have to contribute additional capital because of unforeseen circumstances, such as a major disaster or a major expansion.

Initial capital is needed to buy land, buildings, equipment, and other facilities, as well as to operate the business the first year.

Investing initial capital is a basic member responsibility, and evidence of good faith, or their "earnest money." The members' share of initial capital should be large enough to make them realize they have a financial stake in the business to protect. In the case of many closed-membership cooperatives that require a greater amount of initial investment, the belief is that the members' commitment to the cooperative increases in direct proportion to their level of investment.

Members' investments are used as a credit base when applying for a loan. It should be a sizable proportion of total need because no credit source would likely take financial risks in a cooperative if its members don't demonstrate a willingness to do so.

As a general rule, each member's share is proportionate to his or her anticipated use of the cooperative. This contribution is usually made in the form of cash. Often a few members may contribute more than their share, but this won't entitle them to any special privileges.

Under certain conditions, if members of a cooperative do not have enough funds or credit to subscribe their share of initial capital, the cooperative may be eligible to obtain financial assistance (e.g., government-backed loans) from the U.S. Department of Agriculture, through the Rural Business-Cooperative Service (RBS). (Additional information on these financial programs is available from state Rural Development offices or online at: <http://www.rurdev.usda.gov/rbs/busp/bprogs.htm>.)

#### Facility Loans

Cooperatives usually obtain long-term financing from CoBank or other outside sources to cover the cost of constructing new buildings and buying equipment or plant sites. The main sources of facility loans are CoBank, commercial banks, and insurance companies.

Cooperatives serving rural patrons may also obtain facility loans jointly from RBS and CoBank, under feasible conditions.

USDA's Rural Utilities Service (RUS), through rural electric cooperatives, may lend funds to a cooperative to purchase electrical equipment and related items.

### Operating Loans

Operating capital loans generally are for short- or medium-term uses. The medium-term loans supplement the cooperative's own capital funds. Short-term loans are generally seasonal, and are used to finance such expenses as seasonal increases in inventory, or accounts receivable. Cooperatives may obtain operating loans from CoBank, USDA's RUS, commercial banks, and other lenders.

### Commodity Loans

Marketing cooperatives must often store their products such as grain, cheeses, fruits, or frozen citrus concentrate for long and short periods of time. In some cases, a commodity loan is necessary to pay an advance to the member before a product is sold. Such loans come from CoBank, USDA's Commodity Credit Corporation (CCC), a commercial bank, or other sources, and are secured by warehouse receipts.

### Special Services Loans

A number of Federal Government agencies lend money to cooperatives providing special services. An important source for rural electric and telephone cooperatives is USDA's Rural Utilities Service (RUS). Loans are made to construct rural infrastructure for electric power distribution, transmission, and general capacity. Modern telecommunications services are financed by RUS for fiber optic cable, digital switching, and broadband service to rural America.

National Rural Utilities Cooperative Finance Corporation (CFC) is an independent, self-help credit institution created by its member rural electric systems to provide supplemental financing for rural electric cooperatives.

USDA's Rural Telephone Service was established as an agency by amendment to the Rural Electrification Act to provide supplemental financing for rural telephone systems.

The National Cooperative Bank (NCB), although oriented largely to consumer cooperatives, also makes loans to producer cooperatives. NCB financing includes term loans for major capital expenditures, lines of credit, and construction and real estate loans.

In addition to these loan sources, several "special interest" organizations lend funds to certain groups. The Bureau of Fisheries in the Department of the Interior lends to fish marketing cooperatives; the Bureau of Indian Affairs, to cooperatives of Native Americans, Eskimos, and Aleuts; and the Bureau of Reclamation, to small cooperative reclamation projects, primarily for irrigation in 17 western states.

### Revolving Capital Finance

Revolving-capital financing is widely used by and well suited to cooperative operations. Here is how it works.

As a member does business through a cooperative, he or she authorizes it to use a portion of the money accumulated or saved through patronage. Or, the member may furnish capital based on the dollar value or physical volume of products sold or bought through the cooperative. In either case, this money is identified as a capital investment of the member and is used for capital purposes only.

The money thus collected by the cooperative from patronage is credited to the member on the cooperative's books. At the end of the fiscal year, the member is issued a statement of the total amount invested in cooperative capital for the year.

This capital may be treated as a revolving fund and used for repayment of debt, expansion, or for such other capital purposes as authorized by the board of directors. As such funds continue to accumulate, the board authorizes repayment to those members who contributed.

Repayment first goes to members whose contributions are the oldest in the revolving fund. Normally, each year's contributions are issued in a numerical series. Thus, the oldest of the numbered series are repaid first.

As a general rule, the member's evidence of revolving fund contributions does not have a specified repayment date (due date). Rather, the board establishes revolving fund periods after considering the association's financial requirements. Some cooperatives revolve funds at intervals of 5, 7, or 10 years. Others, such as local farm supply cooperatives, revolve on a lengthier schedule such as 20 years. These time periods are not legal requirements but they are considered to be moral commitments by the cooperative.

The revolving-capital plan allows members to build up equity in their association in proportion to the amount of business they transact. It ensures that current investment in the cooperative is largely in the hands of current patrons. It provides an orderly process for returning or withdrawing a member's investment without impairing the total capital structure. Perhaps more importantly, the revolving-capital plan gives the business flexibility to meet changing conditions and accompanying financial needs.

On the down side, the revolving-capital plan creates some membership problems. Under some circumstances, the revolving period may have to be lengthened, thus postponing the member's return on investment. The longer period may place a financial burden on some members. In some instances, a return on investment is not paid until the member dies, and the benefits are distributed to the member's estate. Older individuals often prefer to recoup their investment sooner.

In situations of merging cooperatives, members inevitably inherit some amount of accrued patronage refund debt that was not accumulated by their home cooperative. Repayment must begin with the "oldest" debt. This can foster resentment among member-owners who must wait for their own dividends, until the inherited dividends are paid. Only when the numerical series of the contributions in the revolving fund have evened out can other dividends be paid.



Considering the intricacies of the revolving-capital plan, members must fully understand and agree to their financial obligations for this plan to be successful.

## Reserves

Like any other business, a cooperative builds up two types of reserves, valuation and capital. Reserves for such items as depreciation are called valuation reserves and are accumulated by a charge to operations. From an accounting standpoint, they are handled as an operating expense as a way to charge a pro rata share of the initial cost of a fixed asset over the estimated life of the asset.

The second type is called a capital reserve, which is usually built up from net operating margins.

There are two general types of capital reserves: (1) those reserved to meet an unexpected crisis, such as a poor business year; and (2) those for a large planned outlay.

The latter type of reserve might be a building fund for new or expanded facilities, adding new services, or a modernization program where the costs exceed the current financial capacity of the cooperative. When such a need arises, the cooperative can use its reserves instead of borrowing money, curtailing its services, or impairing its capital.

Thus, reserves protect the capital investments of members. When a cooperative operates on a strictly nonprofit basis, it allocates capital reserves to all of its patrons on the basis of their use of the cooperative's services.

## Chapter 7 Review

1. What are three important sources of capital available to a cooperative?
2. Explain the practice of revolving capital finance.

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## Types of Cooperatives

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Marketing cooperatives help ensure that members receive the most competitive prices for their quality products.

At one time, it was fairly easy to categorize cooperatives according to the service they provided. In today's more complex economic environment, however, cooperatives have had to evolve into organizations that often perform myriad different services that they would not have traditionally offered. In fact, many cooperatives "overlap" traditional categories, and serve multiple functions characteristic of more than one type of cooperative.

For example, marketing cooperatives no longer simply market their members' products. Now, most also purchase supplies for their members. Many cooperatives extend some kind of credit, and in some cases even operate a credit corporation, for the convenience of members.

Cooperatives have been serving as economic tools providing a wide variety of services since Colonial times. When early American settlers had a large task to accomplish, they pooled their talents and resources to get it done more quickly and efficiently. The time-honored threshing bee, the neighborly barn raising, and the "cheese rings" of the early 1800s are all examples of informal but true cooperative activity. The same concept holds true in many rural communities and school districts.

All cooperatives have the same objectives: to provide services not otherwise available (marketing, insurance, or electric power); to provide them at the lowest possible cost (cotton gins or grain elevators); or to upgrade

productivity (mutual irrigation companies and artificial breeding cooperatives). In fact, early settlement in much of the arid Southwest United States was made possible, in large part, by mutual irrigation companies.

Many marketing and purchasing cooperatives are household names in rural communities. But aside from the services these organizations provide, probably the most widely known are the three types of cooperative credit made available through the Farm Credit System and rural electric cooperatives.

Cooperative leadership has been provided by specialists in several fields—experts on marketing, farm supplies, insurance, dairy cattle bloodlines and breeding, or electric utilities. The availability of such technical knowledge and expertise is valuable in itself.

### Marketing Cooperatives

Over the years, American farmers have learned many new techniques for increasing yields and reducing manual labor. At the same time, finding satisfactory markets for their products has become an increasing problem.

Most farmers are more effective in production than in marketing. They focus their time and efforts on the efficient operation of their farm in order to produce high-quality, high yields of their crops or products. Most frequently lack the time or resources necessary to determine the demands of a constantly changing public market. Cooperatives help fill that marketing void by providing members with the marketing tools they need to get the most return for their investment.

One way they do this is by furnishing a variety of off-farm marketing services. In response to the market demand for high-quality and standardized products, cooperatives can efficiently assemble products from many producers and carefully and accurately grade the products to meet buyer specifications concerning size, quality, color, or other terms. One such example of differentiating products based on quality can be found in fruit cooperatives. If orange growers bring superior oranges to the cooperative for storage and sale, they do not want their products mixed with oranges of a lesser quality, thus reducing the overall value of the oranges.

Additionally, separating the oranges according to established standards of excellence ensures that consumers get the quality of orange that they expect—in short, they get what they pay for.

By paying producers on the basis of grade and quality, cooperatives encourage farmers to produce the kind of quality of product most in demand, while fulfilling consumer demands for standardized products.

Another marketing improvement cooperatives offer involves the processing, or packing of members' goods. Processing includes such activities as canning, pasteurizing, concentrating, churning, cheese making, drying, extracting, freezing, and ginning. By putting products in a form acceptable to large-volume buyers, cooperatives add value to those products, which, in turn, increases the profit margin for their members. Many cooperatives that provide these services are referred to as value-added, or new generation cooperatives.

Cooperatives transport, store, advertise, and promote products for their members. They explore and develop new domestic and foreign trade channels. Through research they develop new products or find new uses for what they produce.

In addition to these obvious marketing benefits, cooperatives have become a valuable bargaining tool for farmers. Agricultural producers typically lack bargaining power, even though their crops and livestock are essential for the nation's food chain. Individual farmers produce relatively small volumes and have little product differentiation (distinctive characteristics that can be emphasized in advertising and give special desirability for users who value them). They lack the bargaining power associated with those factors. The importance of their profession is unquestioned, yet they must combine forces to achieve strength and leverage in the marketing world.

Businesses that buy agricultural products have become larger and more plentiful in recent years. For example, many food processors and packers are large corporations with great bargaining strength that supply wholesale distributors and massive chain food retailers. Similarly, as demand

increases and these retailers buy in large amounts, their bargaining power also increases. Cooperatives help farmers gain market power to match the bargaining strength of other firms.

Marketing cooperatives benefit both consumers and producers. Because they emphasize grade and quality, they have made producers more quality and market-conscious. For instance, food products from cooperatives follow industry trends toward standardized packaging that enable the consumers to shop more efficiently.

Cooperatives strive to minimize costs associated with marketing. These efforts have served to build cost-consciousness among all in the food and fiber market. In essence, cooperatives often serve as the benchmark by which others gauge their own operations. This awareness, in turn, helps to hold down costs to consumers.

Marketing cooperatives teach producers about markets. Through cooperative meetings and publications, farmers gain valuable insight about such matters as marketing costs, consumer preferences, and the need for advertising and brand promotion.

Through marketing cooperatives, farmers extend control over their products beyond the farm gate as they travel to the consumer. As in the case of new generation or value-added cooperatives, members retain more of the profits associated with product marketing than if they simply sell their product as a bulk commodity. As long as the cooperative retains either physical possession or legal title to a commodity, members have a greater voice in its distribution and sale.

This control may be limited to bargaining on grower price and terms of delivery, as in the case of a product to be canned. In some new generation cooperatives, facilities have been created and expanded to allow for such processing by the cooperative, which can lead to a larger portion of the ultimate profit. In the case of milk, for instance, the negotiations may include the manufacture of dairy products and delivery of the packaged or cartoned products by the cooperative to consumer stores and supermarkets.

Perhaps the most important contribution of these cooperatives is that they can develop broader markets for the producer in terms of geographic dispersion as well as variety of uses. Consequently, in times of abundant supply, the price-depressing effect of small surpluses is diminished, and prices stabilize.

Membership in most marketing cooperatives is open to all producers who fully meet membership and production requirements. Exceptions are cooperatives with seasonally limited capacity or outlets, and the new generation cooperatives discussed earlier, which use closed memberships to control the amount of product being marketed at any given time.

A member may withdraw from membership, but only during specified dates annually. Although some cooperatives require a minimum 2-year initial membership, some marketing cooperatives close their membership for a brief season each year to make a preliminary estimate of the approaching crop volume. When that volume has been determined, the cooperative learns how many new members/producers it can support.

A corporation farm actually engaged in growing agricultural products may choose to become a member of a farm cooperative. Further, under special circumstances, a marketing cooperative may hold membership in another larger cooperative handling the same commodity, and market some of its volume through that cooperative.

### Bargaining Cooperatives

A cooperative bargaining association is a special type of marketing cooperative. In instances where the number of agricultural product processors has declined but survivors have grown in size, bargaining cooperatives serve as an effective marketing tool for farmers. They negotiate with canners, packers, or processors on matters such as price, quality, and time of harvest or delivery.

Bargaining cooperatives generally do not take physical possession of the product, but rather establish the terms and conditions of the sale and transfer of that product. The actual sale of the product may be made directly by the farmer to the buyer. Milk producers and fruit and vegetable growers often use this type of marketing cooperative.

## Purchasing Cooperatives

Traditionally, farmers have sold their commodities at wholesale prices, while paying retail prices for their production supplies. This imbalance obviously decreased their profit margin, but they had little choice. They gained little advantage from product differentiation. They purchased in relatively small amounts and often paid extra for products with brand names in feed, farm equipment, and petroleum.

To overcome these disadvantages, farmers turned to the cooperative as an economic tool. In some cases, entirely new cooperatives were organized to manufacture ready-mixed feeds, fertilizer and fuels; to purchase, clean, and distribute high-quality seed; or to provide other production-related services. Thus, these cooperatives supplied farmers with superior products, without the higher costs associated with brand-name purchases.

Initially, cooperative purchasing was quite informal. A group of farmers pooled their orders to gain the advantage of bulk-purchase prices on major farm production supplies such as feed and fertilizer. The demonstrated benefits to producers encouraged them to organize more formal or incorporated cooperatives. These cooperatives hired full-time managers and built warehouses to handle a variety of other production supplies.

Cooperative purchasing, initiated by farmer clubs in Wisconsin and Illinois, really began around 1850. After the Civil War, local and state Granges acted as agents to pool orders and buy needed supplies for direct shipment to farmers. By the early 1900s, the number of purchasing cooperatives was growing steadily, but the real expansion in cooperative purchasing occurred after 1930. The Depression made it necessary for the farmer to cut costs to survive. Subsequently, World War II created shortages of needed materials.

This same period witnessed the rise of strong and progressive regional cooperatives—mostly federations of locals. The regionals had the volume and the financial strength to own and operate such large-scale facilities as oil refineries, fertilizer manufacturing plants, and feed mills that could give members more assured supply sources.

Consequently, today's farmers can share via local supply cooperatives in the ownership and benefits from such large-scale activities.

Farmers obtain membership in most purchasing cooperatives by acquiring a share of common stock (the par value is often between \$1 and \$50) and by agreeing to abide by the cooperative's bylaws. In other purchasing cooperatives, patronage (by the producer) is the sole requirement for membership.

Purchasing cooperatives do not usually require members to sign a written agreement, so members are free to buy farm supplies whenever they choose. However, a few purchasing cooperatives stipulate a minimum annual patronage requirement. Non-producers can be patrons, but not voting members of farmer cooperatives.

Three major objectives of purchasing cooperatives are:

- 1 to effect savings for member-patrons through quantity purchasing and manufacturing and efficient distribution methods;
- 2 to buy the type and quality of supplies best adapted to the members' farms and farming needs; and
- 3 to provide the related services suited to the needs of member-patrons.

The savings generated by increased efficiency and reduced per-unit costs associated with large-volume purchasing and manufacturing are passed on to the member-patrons at the end of the fiscal year in the form of patronage refunds. Refunds are distributed according to the amount of business members conducted with the cooperative - either on a dollar basis or on a per-ton, per-gallon, or some other unit basis. If the cooperative needs more capital, it may defer or retain some of the refunds for a determined number of years, and then start redeeming or revolving the oldest amounts.

Purchasing cooperatives can usually adapt more easily to changes in environment and agriculture than marketing associations. For example, when rural Southern California areas with large concentrations of citrus



orchards were urbanized and replaced by housing developments and shopping malls, many citrus marketing cooperatives were forced to sell their facilities and discontinue their operations.

Faced with similar changes, some purchasing cooperatives have expanded their product line to offer supplies to suburban customers on a patronage basis such as lawn and garden seed and fertilizer, sprays, bedding plants, lawnmowers, hand tools, petroleum products, and auto supplies. Meanwhile, business with their farmer-members continues. This flexibility has helped many purchasing cooperatives to prosper and flourish, even as the number of farmer-members declines.

Services provided by the typical purchasing or farm supply cooperative vary somewhat according to the area it serves. Some carry a relatively limited line of supplies related to member needs. Petroleum cooperatives, for example, may purchase and distribute only petroleum and related supplies—gasoline, heating oil, propane, lubricants, tires, batteries, and automotive supplies.

However, most local purchasing cooperatives carry a wide variety of supplies and services related to farm commodity production. They may mix feed, blend fertilizer, clean and shell seed, supply automotive needs such as gasoline or tires, and carry a full line of building supplies and tools. Many cooperatives have evolved and developed more adequate farm service centers—one-stop shopping for members.

One basic service provided by most purchasing cooperatives is on-farm delivery. Feed is delivered in bulk to farmers' bins and bulk tank trucks deliver fuel oil directly to farm home storage tanks or refill propane fuel tanks. The value and convenience of such a service are immeasurable.

Many cooperatives not only deliver bulk fertilizer but also offer custom fertilizer spreading services using specialized equipment. Some petroleum cooperatives even operate special trucks to deliver, repair, and mount tires on farmers' field equipment. These services save members the expense of buying or renting such specialized equipment and valuable time for farm operations.

## Related Services

Since the days of the earliest settlers, Americans have been using cooperatives to solve mutual problems and to provide specialized services. The early fire departments operated like cooperatives. Neighbors passed water buckets from hand to hand to put out the fire on a neighbor's property. More recently, cooperatives have been providing an ever-widening variety of specialized services.

In Florida and California, fruit growers have formed pest control and grove care cooperatives to own and operate highly specialized, expensive equipment. Midwest regional cooperatives provide agronomic services, such as soil testing and fertilizer recommendations.

Regionals have formed interregional cooperatives to develop improved varieties of seed and to carry out research and demonstration projects related to crop and livestock production.

In Wisconsin, dairy farmers have formed a highly technical data processing center. Through the use of sophisticated computers and programs, the cooperative processes, analyzes, and reports results of periodic tests performed by dairy herd improvement associations. Data is analyzed quickly and accurately, and the results are made available to the dairy members almost immediately.

Animal breeds are improved by the use of artificial insemination cooperatives. Some of these cooperatives operate on an international basis, thus widening the knowledge resource base.

Much of the western United States could not have developed, agriculturally or otherwise, without the construction of irrigation systems. Farmers' irrigation cooperatives played an important role in the development of these systems. Mutual irrigation companies still exist and are most numerous in Colorado, Utah, California, Montana, Wyoming, Idaho, and Oregon. They acquire or develop water and distribute it directly or indirectly to the land users.

Since the early 1900s, livestock producers have teamed up with the Federal Government to use and improve certain public and private land.

This teamwork has often been accomplished through cooperatives. In 1934, Congress passed the Taylor Grazing Act that authorized the Secretary of the Interior to establish districts for grazing livestock or raising forage crops.

The machinery for setting up grazing districts was fairly simple. They usually included both publicly and privately held land. Public hearings were conducted about the feasibility of the proposed districts. If feasible, the Secretary of the Interior issued rules and regulations designed to ensure that the objectives of the act, respecting the districts, would be met.

These objectives are:

- 1 to regulate occupancy and use;
- 2 to preserve the land from abuse;
- 3 to develop the range in an orderly manner;
- 4 to protect and rehabilitate the grazing areas; and
- 5 to stabilize the livestock industry dependent on the use of public land when the act was passed.

Since the turn of the 20th century, grazing associations and other organizations have been using certain areas of our national forests. The authority of the Secretary of Agriculture to permit, regulate, and prohibit grazing in the national forests emanates from the Organic Administration Act of 1897 and the Granger-Thye Act of 1950. This authority has in turn been delegated to the chief of the Forest Service. Livestock grazing in the national forests is administered under a permit system. Permits may be issued to individuals, partnerships, corporations, or grazing associations, and are usually valid for 10 years.

## Chapter 8 Review

- 1 Name three types of cooperatives and discuss the purpose of each.
- 2 What type of cooperative enables producers to capture more profits from the sale of commodities by extending control past the farm gate?

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## Farm and Home Service Cooperatives

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Utility Co-ops have traditionally provided much of the electric and telephone service to America's rural communities and farms.

services continue today through such cooperatives and are supported by USDA's Rural Utilities Service.

Electric and telephone cooperatives, like others, are democratically controlled, provide services at cost, and exist to provide services exclusively for their member-owners. But they differ from other cooperatives in two major respects. Because both electric and telephone cooperatives have exclusive rights to serve specified rural areas in most states, anyone living in those areas who wants electric or telephone service must join those cooperatives. That exclusivity of service is unique to utility cooperatives.

These cooperatives differ in their use of government financing. They borrow money from the Federal Government through the Rural Utilities Service (RUS), which succeeded the REA in 1994.

In discussing cooperatives, most attention is usually focused on ways to contribute to members' incomes. But some cooperatives also provide services that make our lives a little more comfortable.

### Electric and Telephone Utilities

Today, nearly every rural family in America enjoys electric light and power, thanks in large part to the Rural Electrification Administration (REA) of the 1930s and today's member-owned rural electric cooperatives. REA and telephone cooperatives also provided much of the original rural telephone service. These

## Rural Utilities Service

The REA was created in 1935 to help farm families and other rural residents get electricity on a continuing basis. At the time, 90 percent of farms were without electricity. The Rural Electrification Act of 1936 authorized REA to make long-term, self-liquidating loans in an amount determined annually by Congress, for the construction of facilities to serve persons in previously unserved or under-served rural areas.

In 1973, the act was amended to expand the resources available for financing rural electric and telephone systems, to provide for insured and guaranteed loans at reasonable interest rates, and to reduce the impact of the REA program on the federal budget. A revolving fund was established through collections on outstanding and future REA loans, and from the sale of borrowers' notes to the Secretary of the Treasury or the private money market. Congress also imposes annual limits on the amounts of these loans.

Significantly, 99 percent of farms had electricity by 1990, largely due REA programs. In a 1994 USDA reorganization, Congress combined the loan programs for electric, telephone, water, and sewer under the RUS administrative umbrella. Since the inception of the electric program, loans exceeding \$57 billion have been approved to support electric infrastructure in rural areas. There are about 750 rural electric systems that are RUS borrowers. Of these, 96 percent are electric cooperatives. Each is an independent, locally owned business enterprise, incorporated under the laws of the state in which it operates.

Rural electric cooperatives have also established their own lending institution, the National Rural Utilities Cooperative Finance Corporation (CFC), to provide supplementary financing. Members have invested more than \$3 billion in CFC's securities. The loan and guarantee program exceeds \$21 billion. Under a form of common mortgage agreement, RUS gives loans made by CFC and other non-governmental lenders equal status with those of RUS, on a pro rata basis. RUS also offers its borrowers technical assistance in engineering, accounting, and management development.

Most of the 32 million consumers served by electric cooperatives are members who share ownership of the electric system and have a voice in



Utility cooperatives can link rural areas to medical communities via advanced telecommunications technology.

its operation. Each member has one vote in the election of the board of directors and in any other decisions brought up at the organization's annual meeting.

Members of rural electric cooperatives pay a nominal membership fee that is usually refundable if the member leaves the area. In other words, they share in operational profits just like members of other cooperatives, through patronage dividends.

The fee for electric service charged by an electric cooperative covers the cost of the service, an amount to repay RUS or similar debt on a schedule, and a small margin to ensure continued operating capital and reserves.

Most bylaws specify how to treat margins that remain after all expenses are covered. Some organizations return the margins in the form of rate

reductions and others pay cash patronage refunds. Most electric cooperatives refer to this return as "capital credits." Other types of cooperatives identify it as "deferred patronage refund."

Members are invited to attend annual meetings of electric cooperatives, when the officers and the manager report to the membership on progress and problems. The members vote to fill vacancies on the board of directors, which subsequently elects officers from its own ranks.

### Rural Telephone Service

Rural telephone and electric cooperatives operate under the same general principles. They came into being as part of President Franklin Roosevelt's Depression-era "New Deal" initiatives. However, despite sincere efforts to create telecommunications equity among citizens regardless of where they lived, by World War II the state of telephone systems in rural America had deteriorated. By 1940, fewer farmers had phones than had them in 1920.

As a result of this disparity, in 1944 the Rural Telephone Administration was established, modeled after the successful Rural Electrification Administration (REA). In 1949, the Rural Electrification Act was amended and expanded to provide long-term, low-interest loans to rural telephone systems. This sparked tremendous growth in the number of rural residents receiving telephone service. Currently, over 95 percent of American farmers reap the benefits of the 220 rural telephone cooperatives that serve them.

These cooperatives obtain funds from RUS and from the Rural Telephone Bank. This bank was established in 1971 in the USDA to provide supplemental financing for telephone systems. Bank loans are made for the same purpose as those made by RUS, but bear interest at a rate consistent with the bank's cost of money. The stockholders elect 6 of the bank's 13-member board of directors.

The National Telephone Cooperative Association (NTCA) in Washington, D.C., is the trade association for rural telephone cooperatives.

## Farm Insurance

Cooperatives organized to offer fire insurance protection to farmers are called mutual fire insurance companies. They have served rural America for more than 200 years. In 1752, Benjamin Franklin formed what is believed to be the first such cooperative in North America, called "Philadelphia Contributionship for the Insurance of Houses from Loss of Fire." An imposing title for such a small organization, but the concept caught on, and mutual fire insurance companies expanded rapidly.

When mutual fire insurance companies were small, assessments were made after each loss. Most mutuals today operate on an advance assessment basis, similar to other types of insurance companies.

Many mutual fire insurance companies operate in rural areas and respond to the needs of local farmers and community residents. One drawback is that the company can suffer devastating losses if a natural disaster, such as a tornado, strikes the entire community. Consequently, these companies have more recently begun to spread their risk by reinsuring with similar companies in other areas or with specialized mutual reinsurance companies. Not only does this protect the company from failure in the event of a disaster, but it also enables the company to write large policies. This increases the amount of available protection to farmers.

These companies are true cooperatives. The policyholder-members own the company and control it through a board of directors. At one time, directors acted as representatives and actually wrote insurance applications. Today, this responsibility is delegated to professional employees.

Mutual fire insurance companies also serve as leaders in fire prevention education and awareness. They may make periodic inspections of insured property, and check for the presence of potential fire hazards prior to issuing a policy. They increase community awareness and promote safety via the educational materials they publish and distribute.



## Health

In sparsely populated areas it has often been difficult to attract and retain competent medical personnel and facilities. As public awareness of the importance of good health and skilled physicians has increased, rural residents have responded by forming rural health cooperatives. By pooling members' resources, these associations have been able to build clinics, attract top-notch medical professionals, and devise medical programs centered on the needs of their members. In short, these cooperatives provide their members with affordable, high-quality health care.

Group health cooperatives are no longer limited to rural areas. Urban areas have experienced a surge in the growth of cooperative health maintenance organizations (HMOs) and non-profit community health centers. Members rely on these organizations to provide general or specialized medical services and facilities at reasonable prices.

Health cooperatives are formally incorporated and democratically owned and controlled. Members elect a board of directors to establish policy and hire a manager to operate the business. Due to the specialized nature of their services, doctors on the staff control the medical aspects of the association. They may consult with the board occasionally on policy matters, but generally manage the medical issues independently.

This symbiotic relationship between the cooperative and the medical staff benefits both groups. Doctors are freed from administrative problems, finances, housekeeping details, and other distractions normally associated with professional practice. They can devote more time to medical issues and even patient appointments. In some instances, these doctors gain access to highly specialized, expensive equipment, ordinarily beyond the financial grasp of individual practitioners.

## Housing

More than 1.5 million American families live in homes owned and maintained by cooperative associations. These families represent all socioeconomic levels, nationalities, religions, ages, and interests. They live in townhouses, mobile homes, condominiums, single-family homes, and apartment buildings. Many have special needs. Their housing coopera-



Quality, affordable housing has been provided through housing cooperatives since the late 1800s.

tive provides them independent living opportunities and a support network of people with similar needs. There are cooperatives for student housing, seniors, and even for artists which offer the benefit of combined workspace. Inrespective of physical characteristics, all of these housing cooperatives share the same cooperative philosophy of democratic control.

Although housing cooperatives are abundant, the concept is not new. The first known housing cooperative was organized in New York City in the late 1800s. The city now has thousands of housing cooperatives, attesting to the great need for affordable, reliable housing. The majority of cooperative housing is concentrated in major cities such as New York,

Washington, Chicago, Miami, Detroit, Atlanta, and San Francisco.

These associations are governed much like other cooperatives—by the members who own them. Members elect the board of directors and hire a manager to perform management functions. Some smaller cooperatives forgo this option and instead choose to handle all maintenance and operations responsibilities.

Housing cooperative residents realize many benefits from their membership, such as personal and real estate tax advantages, reduced maintenance costs, the advantage of home ownership, and the resulting equity accumulation. As members, residents own a share in the corporation that owns the building in which they live. There is no landlord and residents are secure in the knowledge that they can remain in their home indefinitely, as long as they are able to fulfill the obligations stated in the bylaws.



Some housing cooperatives employ the self-help concept, in which members invest "sweat equity," helping supply construction labor. Photo courtesy Reno-Gazette Journal.

The National Association of Housing Cooperatives (NAHC), based in Washington, D.C., is the only nationwide cooperative housing trade organization.

## Chapter 9 Review

1. What Federal Government agency helped to make electricity available in nearly every rural American household?
2. Name three kinds of cooperative housing.

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## Cooperative Credit Services

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Cooperative financial institutions exist solely for the purpose of serving the needs of members.

Farmers and other rural residents have organized two general types of credit services to meet their lending needs. One type provides credit for business purposes, and the other is primarily for personal services. The cooperative Farm Credit System obtains outside investment capital to support farming operations and farmer cooperatives.

Congress created the system in 1916 to provide Americans in agriculture with a reliable

source of credit. The purpose of that system has remained virtually unchanged over the last century.

### Farm Credit System

There are six regional Farm Credit Banks within the Farm Credit System (FCS), and one Agricultural Credit Bank, called CoBank. Combined, these banks provide funds and support services to nearly 200 locally owned Farm Credit associations and numerous cooperatives. The FCS provides more than \$62 billion in loans to 500,000 borrowers. About one-fourth of the country's agricultural credit needs are met by these institutions.

Loans cover farm real estate loans, farm operations, rural home mortgages, credit-related life insurance, crop insurance, and various financial-related services such as farm record keeping and financial planning.

Farm Credit System banks raise their loanable funds differently than commercial banks. Rather than securing deposits, the FCS sells systemwide bonds and notes in capital markets. These proceeds are then channeled back to rural America through the vast nationwide network of farm credit lending institutions.

The structure of local credit associations varies across the country. These different structures serve unique purposes. Federal Land Credit Associations (FLCAs) originate and service long-term loans for the purchase, improvement, or refinancing of debt on real estate. Production Credit Associations (PCAs), on the other hand, provide short- and intermediate-term loans. Lastly, Agricultural Credit Associations (ACAs) provide both short- and long-term loans. Both PCAs and ACAs provide financing for expenses associated with the production, processing, and marketing of our nation's food and fiber, as well as for equipment, facilities, and livestock.

CoBank, the only Agricultural Credit Bank in the FCS, finances agricultural cooperatives, rural utility systems, and other rural businesses throughout the United States. CoBank also provides credit to the Farm Credit associations serving agricultural producers in the New England states, New Jersey, and New York. With banking centers across the United States and representative offices in Argentina, Mexico, and Singapore, CoBank can also finance agricultural exports and provide international banking services for the benefit of farmer-owned cooperatives and American agriculture.

There are several national service entities that serve the FCS. For example, Farm Credit Leasing Services Corporation based in Minneapolis, Minnesota, provides equipment leasing services to eligible agricultural producers, cooperatives, and rural utilities across the nation.

The Federal Farm Credit Banks Funding Corporation manages the sale of systemwide bonds and notes in capital markets, and provides financial advisory services to system banks. Governed by a 10-member board and owned by FCS banks, this service entity is located in Jersey City, NJ.

Lastly, Farm Credit Financial Partners, Inc., provides many critical business services, including information technology, marketing, training, and human resource and legal services for ACAs within its Northeast Farm Credit region.

True to cooperative principles in general, all FCS banks and associations are governed as cooperatives, with boards of directors elected by member-borrowers/stockholders.

The Farm Credit Council is the Farm Credit System's national trade association, with offices in Washington, D.C., and Denver, CO. It represents the system's legislative and regulatory interests and provides a wide range of business services.

The independent federal regulatory agency responsible for ensuring the soundness of all Farm Credit System institutions is the Farm Credit Administration (FCA), located in McLean, Va. A three-member board nominated by the President and confirmed by the Senate directs the FCA. Operating expenses for the FCA are paid by the institutions it regulates.

## Credit Unions

Credit unions are cooperatives that operate on a not-for-profit basis. They exist to provide members with lower loan rates and higher rates on savings. Credit unions encourage systematic savings and teach the wise use of money. Credit unions are chartered and supervised either by a state or by the Federal Government. Most are federally insured by the National Credit Union Administration.

Originating in Europe, credit unions began in the United States in 1909 when Massachusetts passed the first state credit union law. Congress passed the Federal Credit Union Act in 1934 establishing the federal credit unions system. Similar laws now exist in all states.

Today, there are more than 11,500 credit unions in the United States with combined assets of more than \$350 billion. Nearly 700 of these credit unions serve 4.5 million members in rural communities.

Whether representing a small group or a large federal organization, credit unions are all formed around people with something in common. Membership is typically limited to persons who belong to the same organization, employer, community, or religious affiliation. Many credit

unions permit family members to join, or allow individuals to remain members even if they leave the association through which they originally joined.

Members own the credit union and control it through the board of directors and a supervisory committee. These elected positions are all filled voluntarily and the members who serve in these roles receive no compensation.

Members' savings are called shares. Share deposits may be made in small amounts and may be withdrawn at will under most circumstances. In addition to savings opportunities, many credit unions also offer a wide variety of financial services such as checking accounts, ATM cards, and all forms of consumer loans.

Using the funds saved by members, credit unions in turn make loans to members. Rates paid on deposits or charged on loans are typically more favorable than those at comparable for-profit financial institutions. Net income from these lending operations is usually distributed to members in the form of share dividends, after reserves have been set aside.

Credit unions, by nature, promote morale and a sense of self-help among members. The credit union philosophy emphasizes financial independence and empowerment.

### Organizations Serving Cooperatives

Members of cooperatives have established organizations to serve functions both specific to individual cooperatives, and functions that are common among them. Several government agencies also perform activities in support of cooperatives.

Thirty-six state councils, representing both consumer and producer cooperatives, provide primary legislative and educational services. These organizations work hand-in-hand with government agencies to promote and sustain cooperative activities of all kinds, and to educate young people who are the future of agricultural cooperatives. Some of these government agencies serve regulatory functions, such as the Farm Credit Administration and the National Credit Union Administration, while

others support cooperatives in other ways. For example, USDA's Rural Business-Cooperative Service (RBS) provides economic and educational assistance. The USDA's Rural Utilities Service (RUS) helps rural utility cooperatives expand and enhance their technologies.

National trade associations may serve a specific type of cooperative, such as the National Rural Electric Cooperative Association (NRECA), the National Milk Producers Federation, or the Credit Union National Association. Others may serve a broad range of cooperatives, such as the National Council of Farmer Cooperatives and the National Cooperative Business Association. Although they focus mainly on legislative activities, they also provide important sources of education, insurance, and management services.



Credit Union House, located two blocks from the U.S. Capitol in Washington, was opened in 2001. State credit union leagues across the nation operate the facility for a wide variety of functions, all intended to give credit unions a greater visibility with Congress. Photo courtesy Credit Union House LLC



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## Canvassing Cooperatives In Your Area

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Many cooperative resources in your community possess a wealth of knowledge and information about the benefits of cooperatives.

The best way to learn more about today's cooperative agribusiness firms is to see them firsthand. Take some time to visit those serving your area. Inquire about their policies and operations. Whether you live in a city, a small town, or on a farm, chances are there are cooperatives serving the needs of your neighbors. Some cooperatives are headquartered in large cities, but most have plants or offices in smaller rural communities.

Find out how many cooperatives there are within a 10-mile radius of your home, and decide what you would like to learn about them. Some questions can be asked of members. A member of a cooperative's board of directors, who might live in your vicinity, would be an ideal resource. For specific information, contact a cooperative field representative, an office manager of a local cooperative, or a public relations director of a regional organization.

You can learn a lot by reading past issues of a cooperative's magazine, newsletter, or newspaper. You might even be invited to attend a membership meeting held in your area. Explore as many different aspects of the cooperative as possible, but be sure to have a grasp of the kinds of things you want to learn before you begin.

For starters, here are a few important things to learn about a cooperative as you begin your survey:

1. What primary products/services does it provide?
2. What other businesses provide similar services?
3. What led to the organization of the cooperative?
4. What types of patrons comprise the membership? Do they regularly patronize the cooperative?
5. What are the requirements for membership?
6. Is there a membership agreement or a marketing agreement if it is a marketing association? If it exists, how is it enforced? Successfully?
7. Is the cooperative's structure centralized or federated?
8. How are patronage refunds distributed?
9. How are patrons informed of their contributions to the cooperative's capital fund or revolving fund credits?
10. Are dividends paid on capital stock? If so, at what rate?
11. How long is the revolving fund cycle?
12. If it provides a marketing or purchasing service, how do total returns to patrons or operating costs compare with those paid by competitors? If it provides other services, how do costs or charges compare with those of other firms?
13. Is the cooperative expanding in volume of business or services performed?
14. Is membership increasing or decreasing? Why?
15. Are directors respected in their communities as reliable, responsible, and public-spirited people?
16. Is the cooperative progressive or does it just "follow the leader" or accept the status quo?
17. Are members loyal patrons of the cooperative? Do they speak highly of it?
18. Does the cooperative allow members to buy supplies on credit?
19. If it is a marketing association, does the cooperative sell primarily to wholesalers, retailers, or both? Does it export to other countries?
20. Does the cooperative own or operate assets such as refineries, oil wells, fertilizer plants, feed mills, canneries, slaughterhouses, processing plants, or research laboratories?

You may not be able to find all the answers to these questions at one time or from one person. But any answers you do get will contribute to your knowledge of the association and help you evaluate its contribution to your community.

Things you learn about one cooperative may not be true of another. Cooperatives differ greatly in services performed, size and makeup of membership, financial management and operations, size of staff, and number of directors.

Regardless of their differences, all cooperatives share the same three cooperative principles:

- User-owned
- User-controlled
- User-benefits

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## A Cooperative For Your Group

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Clubs and organizations such as FFA and 4-H can explore the benefits of cooperatives. Photo courtesy 4-H Council

If you are a member of FFA, a 4-H club, or other group, you may find that belonging to a cooperative serving your area could benefit you or your organization. That would give you a personal and practical purpose for your inquiry about local cooperatives.

If this is the case, it would be necessary to determine whether the cooperative considers you, or your group as a whole, eligible for membership. What type of cooperative service could your group use?

The cooperative that best serves your needs might market crops or livestock produced on a chapter farm, or purchase feed, seed, spray, or petroleum products. It might provide an essential, specialized related service such as custom pest control.

If your group joins a cooperative, members must be aware of their responsibility to provide capital to the business in proportion to patronage of that business.

Membership carries both advantages and responsibilities. Members should stay informed regarding the cooperative's policies and operations and should attend membership meetings. Vote for directors, and in all elections of the cooperative. Volunteer to serve in official capacities representing the cooperative membership. As a cooperative member, be active, interested, supportive, and informed.



Young people in rural communities are often heavily involved in agribusiness and sometimes rely on the income they earn from these efforts to pay for future educational plans. Photo courtesy AMPI

In some chapters or clubs, new members may pay a small membership fee and purchase a revolving fund credit from a graduating member. Some chapters with a farm belong to several cooperatives. For their members, cooperative activity is part of the learning process. Membership unites individuals in a common effort and business interest, and may yield savings to group members.

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## Careers In Agribusiness

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Career opportunities abound for young people interested in agribusiness. Photo courtesy GROWMARK

**Y**our interest in agribusiness may be academic as a prospective member-owner. You may even be a prospective employee. Regardless of what draws you to agribusiness, cooperatives represent great opportunities for young people with agricultural interests or experience. For those who wish to pursue the business and management side of agriculture, cooperatives can provide the ideal career opportunity.

As farming becomes more technical and large-scale, farmers are faced with the reality of a complex and changing agricultural environment. They must gain new knowledge and skills to meet the increased demand for food and fiber of our burgeoning society. Because profitable farming now relies so heavily on increased mechanization, and because farming costs are now so high, the capital needs required to operate a successful agricultural operation are higher than ever before.

Where will the people needed to manage agribusiness growth and expansion come from? Where will the next generation of agricultural leaders come from, and where will they receive their training in this field?

Agribusiness offers job opportunities for tens of thousands of agricultural college graduates each year. Degrees in this field are offered at every level—associate's, bachelor's, master's, and doctorate.

By contrast, many agribusiness firms offer work opportunities for vocationally trained young people in positions where a farming background is valuable. This is particularly true of farmer cooperatives.

## Variety of Careers

In addition to farming and ranching, job opportunities in agribusiness include careers in research, conservation, management, education, sales, communications, finance, and a long list of technical occupations.

Related service or support careers include agribusiness consulting, accounting, information technology, financial analysis, legal consulting, and government affairs. Career opportunities exist in a variety of technical fields, such as chemical and mechanical engineers, animal scientists, biologists, architects, agronomists, information technology specialists, botanists, and economists.

Because agribusiness covers such a wide range of activities, career opportunities for young people exist regardless of whether or not they have lived on a farm. An increasing number of these opportunities are in the nation's farmer-owned cooperatives.



Many careers in agribusiness require technical expertise and specific training.

## Education Requirements

In the great variety of agribusiness occupations, the necessary qualifications are as varied as the positions available. There are places for high school and business school graduates, people with specialized training, and college or university graduates.

As in all other types of businesses, the salary paid, responsibilities assigned, and authority given are roughly commensurate with the extent of the employee's education. While many successful agribusiness employees do not hold college degrees, many who serve in administrative roles are college graduates. Directors of research or research analysts usually hold a doctorate.

People with business college training are needed on accounting staffs, as secretaries, and as office managers. College graduates with some knowledge of the commodities being handled by a cooperative are generally preferred as field representatives. In addition to formal training, experience is desirable for those who serve as department heads in such areas as sales, production, transportation, and procurement of supplies.

College training in journalism is an advantage to an editor or publications director.

Usually, the manager of a cooperative or other agribusiness firm handles public relations through published materials, contacts, meetings, articles, and entertainment of guests and visitors. Larger firms and many cooperatives often employ a public relations director.

Many agribusiness firms employ a credit manager, who should have a thorough knowledge of members' monetary needs and earnings, and of sound financial procedures.

A few firms maintain a research department that is concerned with economic research, product research, consumer preferences, or operating practices and problems.

These are just a few of the multitude of talents and skill sets needed to sustain a successful agribusiness firm. It takes a broad mix of educational backgrounds and interests to fulfill all the different employment needs in an agribusiness organization.

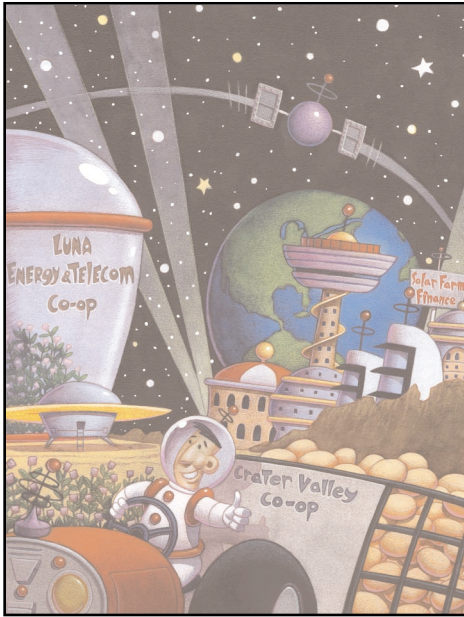
Above all, the most promising agribusiness employees must have a genuine affinity for people, an understanding of differences in attitudes and needs, a willingness to work diligently, and an enthusiasm for the field of business or service in which their firm is engaged. Dedicated agribusiness employees realize that the business will prosper only if it serves patrons efficiently and effectively.



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Cooperatives In The Years Ahead

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Cooperatives are already in the forefront in bringing technological changes to agribusiness. As indicated by the growing number of value-added and new generation cooperatives, these organizations are becoming increasingly important to the production of agricultural products, and in getting these products to consumers.

Requirements in processing and marketing farm products are constantly changing, and the cooperative model is one way that farmers can meet them while still maintaining

control of their products. Cooperatives of the future will enlist unprecedented technological and scientific advances.

In the years ahead, there will be an urgent need for agricultural producers to stay abreast of the constant advances in science. To do so, these producers will have to tap the reservoir of available skills and knowledge, and share these resources freely with one another.

Producers attempting to go it alone will have to be their own financial and management analysts; soils, crop, and livestock scientists; cultivating and harvesting experts; marketers; mechanics; and technical experts. Individuals will find it difficult to keep up with the speed at which new information arrives on the agricultural scene. Just as with other business owners, individuals increasingly must hire professional advisors in many different fields, at least on a part-time basis.

Few farmers can afford their own individual sets of experts, so they form a cooperative to do that. Some cooperatives provide links to headquarter offices or central locations to gain technology and information for members. Farmers often get immediate answers to specific questions or problems.

Grower-owned cooperative farms will be even more important in the years ahead. These farms can take the basic research from the U.S. Department of Agriculture and other agricultural organizations, test and adapt it under actual farming conditions, and then demonstrate to growers and cooperative members how those results benefit the producer.

Farmers need cooperatives now, more than ever, for financial survival. The cooperative gives them a usable business structure and a body of scientific knowledge from which to draw. Cooperatives provide farmers an apparatus for buying and selling their products at reasonable rates.

In all aspects of agribusiness, the farmer of tomorrow faces many exciting challenges. Will these farmers be priced out of their own businesses? Or will they find ways to survive—by adapting cooperatives to their needs or by other innovative efforts? One farmer alone could be a weak voice lost in today's vast marketplace. But the voices of many, speaking in unison, can be an important force to be reckoned with.

## Glossary

agribusiness	any aspect of business that involves the production, processing, or distribution of agricultural products.
capital	financial assets in the form of money or physical property.
centralized regional cooperative	similar to a local cooperative in that membership is comprised of individuals, but it usually serves patrons in the relatively restricted area of a single state or region.
cooperative	a user-owned and democratically controlled business in which benefits are received in proportion to use.
cooperative corporation	a form of business that exists to provide economic services to its members, and sells shares of stock to obtain capital rather than for speculative gain purposes.
differentiated product	a product with unique or special characteristics that make it more marketable to some purchasers.
federated cooperative	a "cooperative of cooperatives" whose membership is comprised of local cooperative associations.
fixed capital	money used to buy such tangible assets as land, buildings, and equipment.
investor-oriented corporation	a form of business that is operated on a for-profit basis and obtains capital funds through sales of stock shares.

limited liability company	a form of business that is jointly owned by two or more people; provides the tax advantages of a partnership; is a separate legal entity, like a corporation; and allows the member-owners to control the all aspects of the business.
local cooperative	a cooperative that provides services for a community or area, whose membership is comprised of individuals.
operating capital	money required to operate the business on a daily basis, such as paying employees, paying utilities, and buying necessary supplies.
partnership	a form of business that is jointly owned by two or more people who agree to operate on a partnership basis.
regional cooperative	a cooperative that serves a number of counties, a state, or a number of states. Membership can be comprised of individuals, cooperatives, or a combination of both.

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## U.S. Department of Agriculture

Rural Business-Cooperative Service

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Rural Business-Cooperative Service (RBS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The cooperative segment of RBS (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. RBS also publishes research and educational materials and issues Rural Cooperatives magazine.

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