Economics, Research and Structure of Farmer Owned Cooperatives

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The Cooperative Business Model

- An important part of U.S. economy
- Prevalent in the agricultural sector
- U.S. Cooperatives
  - $3T in assets
  - $654B in revenue
  - 2M employment
  - Returned $79B to user members
Not a New Idea But Still a Good Idea

- Ben Franklin is recognized as establishing the first U.S. cooperative
- Over 1B cooperative members worldwide
- U.S. world leader of cooperative members
  - 305.6 million members
  - nearly 30,000 cooperatives
U.S. Cooperatives and Ag Sector

Number of Cooperatives

Revenue by Cooperative Type

Ag Cooperative Revenue

Ag Cooperative Membership
Unique Features of Agricultural Cooperatives

- Extension of the farm business
- Provide economies of scale, market access and risk reduction
- Presence of a cooperative keep markets competitive
- Business organized as cooperatives:
  - increased economic impact and job creation in rural communities
Cooperative Research is Important

- Cooperatives face unique challenges in finance, management, strategy and communications

- Cooperative research stands to benefit 2.2M producer members

- Cooperatives were part of the original Cooperative Extension Service mission in 1926
Agricultural Cooperatives: Economics, Opportunities and Structure in a New Era of Food, Fiber and Fuel

- **Project purpose:**
  - identify critical issues facing agricultural cooperatives
  - organized by C-FARE/sponsored by CHS-Foundation

- Surveyed cooperative leaders across the U.S.

- 15 Cooperative experts participated in a panel in Washington D.C. on Aug. 3

- Follow up conference in Minneapolis
  - over 100 attendees
External Issues

- Volatility of commodity and input markets
- Global competition
- Market concentration
- Environmental regulations and issues
- Farm and energy policy
Strategy Issues

- Repositioning to create wealth through knowledge and information
- Strategic planning
- CEO and Key Employee Succession
- Risk Exposure and Financial Reserves
Financial Issues

- Market volatility drives the need for equity, and obtaining equity out of the profit stream is not rapid enough.

- Counterpart risk and market concentration increases risk and equity demand

- Tax credits/other provisions are not designed to be compatible with the cooperative financial structure
Communication Issues

- Communicating cooperative value package to producer members
- Reminding members about their rights, duties and responsibilities as member-owners
- Educating young producers and young potential employees about the cooperative business model
- Public understanding and support for cooperative business model
New Cooperative Development Issues

- Attracting talented and knowledgeable leaders to champion cooperative formation
- Accurately assessing demand and feasibility of a potential cooperative.
- Developing network of support and resources to create new cooperatives
Other Issues

- Increasing cooperative-related research/teaching at Land Grant Universities
- Building a better understanding of cooperatives among professionals (accountants, consultants, attorneys)
Research Needs Identified

- Identifying/testing strategies and mechanisms to reduce or transfer risk
- Alternative vehicles for equity generation
- Communication goals and strategies
- Identifying and building “cooperative genius”
  - unique set of skills to manage a cooperative
A Few Policy Implications

- Continued public/private partnerships to enhance cooperatives is a vital tool to assist producers

- Regulations for large corporations/banks often have unintended consequences for cooperative firms

- Policy-makers need to understand unique business structure
  - Cooperatives benefit producers/rural communities
  - Keep markets competitive