

Economics, Research and Structure of Farmer Owned Cooperatives



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The Cooperative Business Model



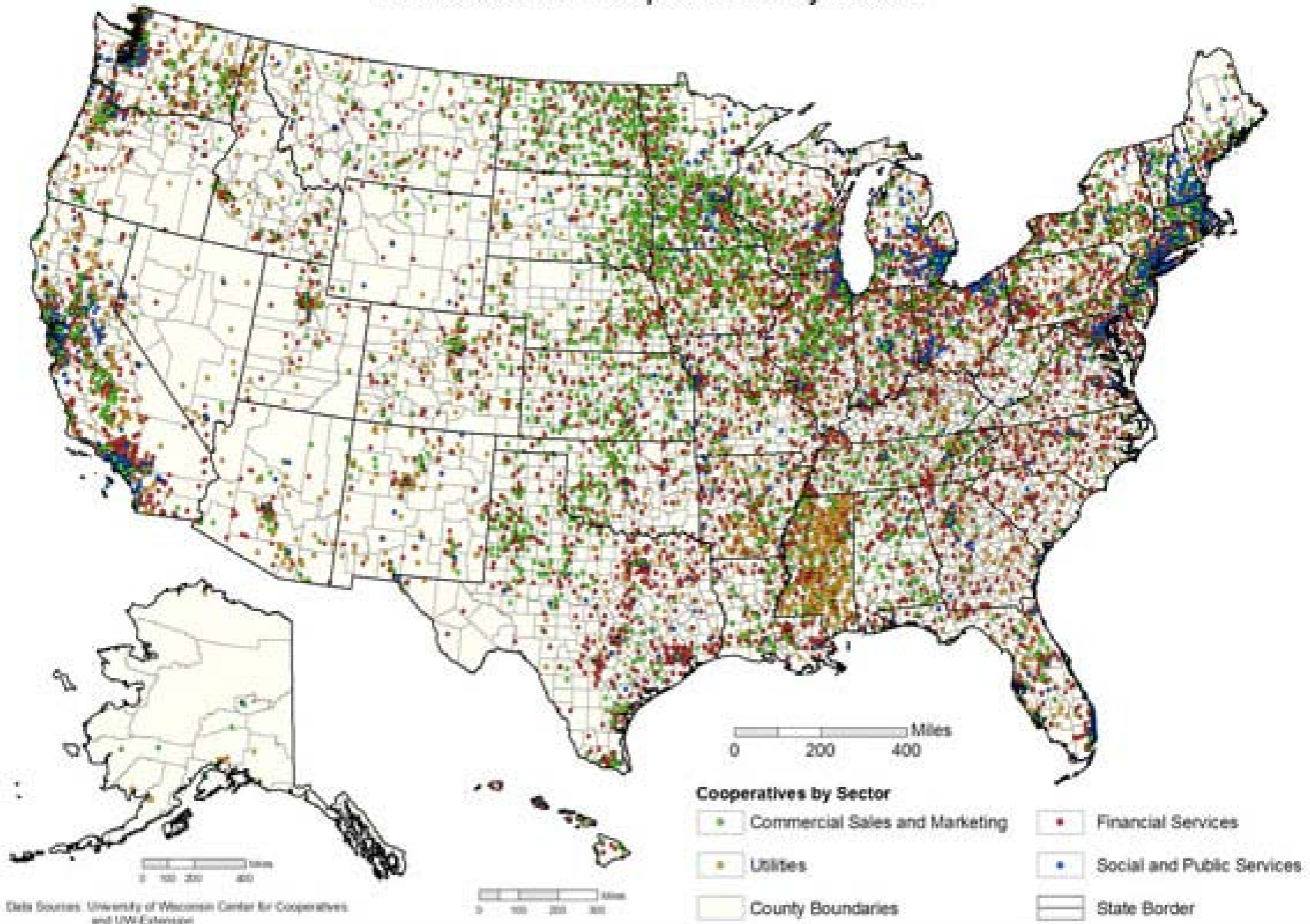
- An important part of U.S. economy
- Prevalent in the agricultural sector
- U.S. Cooperatives
 - \$3T in assets
 - \$654B in revenue
 - 2M employment
 - Returned \$79B to user members

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

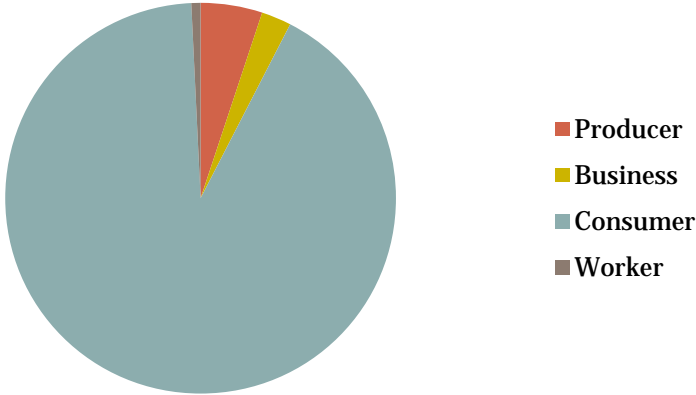
Distribution of Cooperatives by Sector



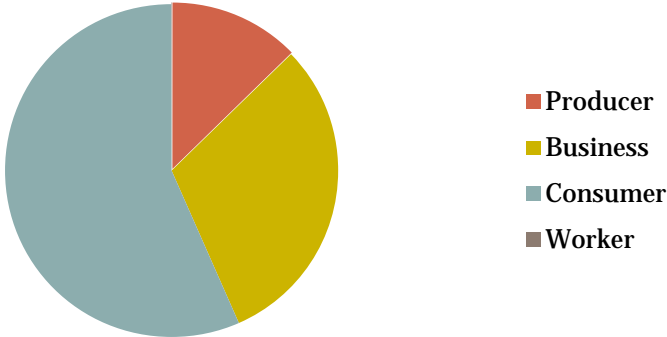
U.S. Cooperatives and Ag Sector



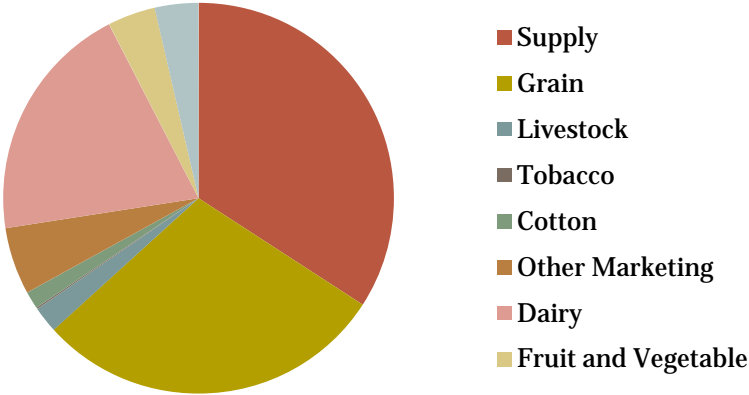
Number of Cooperatives



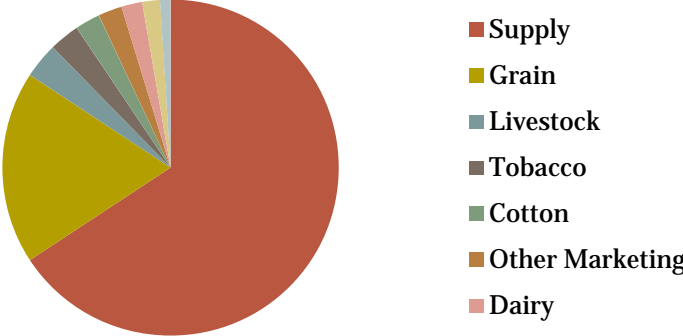
Revenue by Cooperative Type



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