

Grower Cooperatives (Co-ops)

INTRODUCTION

Cooperatives have historically been utilized to market wholesale quantities of produce in Kentucky. In the early 2000s, as many as five grower cooperatives in Kentucky were actively marketing tomatoes, melons, sweet corn, cabbage, bell peppers, pumpkins, and other crops to wholesale buyers. By 2006, however, marketing by grower co-ops had largely disappeared from Kentucky's produce industry as growers found other ways to ship produce. The involvement of co-ops in marketing produce from Kentucky has been limited.

Cooperatives, however, still remain a potential form of business organization for produce growers located in a similar geographic area. Producers interested in exploring the cooperative business structure can investigate resources available from the Kentucky Center for Agriculture and Rural Development (KCARD).

This publication will highlight the general principles behind a co-op and identify potential benefits for produce growers.

WHAT IS A COOPERATIVE?

A cooperative is a business corporation organized to serve the needs of its member patrons rather than to make a profit on its own.¹

This does **not** mean that it exists to lose money — any business must at least break even to

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continue operation. However, a cooperative is distinguished from other businesses in that it is **service-driven**, rather than profit-driven. *The goal of the cooperative is to provide its members with services and goods that would be economically impossible for members to obtain individually.*

This is the first of three USDA “principles of cooperatives” and is referred to as the **user-benefits** principle.² Cooperatives depend on a group of producers joining forces and, in return, obtaining bargaining power. Additional benefits include cost savings associated with producing and/or processing larger quantities. For example, in Kentucky, cooperatives have not only existed to market members' products, but also to purchase packaging and other inputs in bulk quantities, allowing substantial discounts to members.

The second principle is the **user-owner** principle. This means that *the cooperative's members actually own the co-op*. If a cooperative owns a building, for example, that building's ownership is spread across the entire co-op membership. Because the

members are actually the owners of the co-op's assets, co-ops do not exist to give their members "something for nothing." This means that, if expansion is being considered, the co-op and its owner-members are to be the first source of potential funds.

There is much evidence that the most successful cooperatives begun in the past 30 years have involved substantial personal financial commitment by their members. A group operating a co-op that is unwilling to fully dedicate their financial and production resources to the enterprise should reconsider structuring as a cooperative. Lack of member commitment to this enterprise's business operations frequently results in undercapitalization of the business and is one frequent reason for failure.

Finally, co-ops are **user-controlled**. This means that each member-owner has equal vote in how the operation is run. Most often, the members elect a board of directors from among themselves to oversee the operation of the co-op. By selecting leaders who are committed to the original goals and ideals, members exercise the power to dictate how their cooperative is run.

Members of all cooperatives should be careful to monitor and take interest in how their co-op is doing business. Serving the needs of its user-owners, after all, is the primary reason that a co-op exists.

CONSIDERING COOPERATIVES

While a cooperative is not the only way for farmers to work together to create opportunities for themselves, interest in co-ops continues to be strong in American agriculture. This is especially true among producers exploring new and alternative enterprises for their farms.

Business Planning

The success of new cooperative ventures will depend heavily on careful study of the activities pursued prior to making major investments into operations and facilities. Before an actual

business plan is written, a feasibility study will need to be conducted. This tool can then be used to determine whether the business is feasible, and whether or not an actual business plan should be prepared. A thoughtful, forward-looking business plan is a key success factor for which there is little substitute.

For further information on conducting a feasibility study, please refer to *The Farmer's Cooperative Yardstick: Conducting a Feasibility Study for Marketing Cooperatives*. Some business planning assistance for producer groups is available through the KCARD. This center is staffed by people experienced in co-op development. They can help make financial projections and ask the hard questions that can contribute to the business' success.

Member Commitment

A cooperative venture needs strong leadership and commitment from its members. This can be especially critical in the early stages of formation. The feasibility study and business planning process provides a design for how the cooperative should be run. They provide a guideline for the resources necessary to make the venture successful. Members need to commit to provide these resources on an ongoing basis or be prepared to struggle.

A group of CSA farms or a farmers market, for example, that identifies benefits of becoming a cooperative, must realize that co-ops take considerable time and effort to establish. Members will need to be as attentive to paperwork, accounting, administration, and legal issues as they are to facilities, advertising, and other items that have more visible — but not necessarily more important — benefits.

Market Research

Member education about the marketplace is another key success factor required both in the start-up phase and on an on-going basis. Board members need to be committed to keeping in touch with the changing customer, as well as with

new technologies, since these can potentially impact the cooperative's way of doing business.

Many cooperatives are formed for the purpose of marketing members' goods. Since the co-op members own the business, they need to be actively interested in seeking out markets and shoring up existing ones. Capable employees and management personnel can help guarantee success, but in the end, it is the members-owners who need to be interested in the markets the co-op is entering.

Management

Strong management must be in place to oversee the day-to-day operations of any cooperative effort. Investment in capable people is every bit as critical as investing in equipment. Farmers considering a move into a cooperative effort should be prepared to pay for the right personnel to make their venture a success. Board members should monitor these costs carefully. Many co-ops are surprised by failure because they do not know their costs.

Labor and labor management are especially critical issues for agricultural cooperatives. Not only do they need managers with production and marketing expertise, but co-ops also need to identify and manage the labor needs. Labor is a major expense category for any business, and how it is managed can make or break a business' financial success.

Cooperation can open many doors of opportunity for our farmers across Kentucky. The process of making cooperation work, however, should be carefully thought through. Demand for new products and for services that our farmers can provide is expanding all over the world. New market development partnerships with other farmers that secure access to special equipment and personnel will be one way for our farmers across the Commonwealth to play a role in the design of our future food and fiber system.

SELECTED RESOURCES

- The Farmer's Cooperative Yardstick (University of Kentucky, 1987 & 1998)
A series that includes the following sections:
 - Agricultural Cooperatives – How They Fit in the American Free Enterprise System, AEC-42
<http://www.ca.uky.edu/agc/pubs/aec/aec42/aec42.pdf>
 - Boards of Directors for Farm Cooperatives: Powers – Responsibilities – Liability, AEC-49
<http://www.ca.uky.edu/agc/pubs/aec/aec49/aec49.pdf>
 - Conducting a Feasibility Study for Marketing Cooperatives, AEC-45
<http://www.ca.uky.edu/agc/pubs/aec/aec45/aec45.pdf>
 - Farmer and Consumer Cooperatives Structure and Classification, AEC-44
<http://www.ca.uky.edu/agc/pubs/aec/aec44/aec44.pdf>
 - Financing Agricultural Cooperatives, AEC-52
<http://www.ca.uky.edu/agc/pubs/aec/aec52/aec52.pdf>
 - How to Start a Cooperative, AEC-43 (1987)
http://www.uky.edu/Ag/AgEcon/pubs/ext_ca/aec43.pdf
 - Role of the Co-op Manager, AEC-51
<http://www.ca.uky.edu/agc/pubs/aec/aec51/aec51.pdf>
 - Understanding Cooperative Terminology, AEC-47
<http://www.ca.uky.edu/agc/pubs/aec/aec47/aec47.pdf>
 - Your Roles as a Co-op Member, AEC-50
<http://www.ca.uky.edu/agc/pubs/aec/aec50/aec50.pdf>
- Kentucky Center for Agriculture and Rural Development
<http://www.kcard.info/>
- Business and Cooperative Programs (USDA)
<http://www.rurdev.usda.gov/rbs/coops/csdir.htm>
- Co-ops 101: An Introduction to Cooperatives (USDA, 1997) 51 pp.
<http://www.rurdev.usda.gov/rbs/pub/cir55/c55text.pdf>

- Cooperation Works (National Cooperative Business Association)

<http://www.cooperationworks.coop>

- Rural Cooperatives Magazine (USDA)

<http://www.rurdev.usda.gov/rbs/pub/openmag.htm>

¹“Cooperative” definition in W. David Downey & Steven Erickson, *Agribusiness Management*, New York: McGraw Hill, 1987, p. 455.

² Further discussion of these principles may be found in the USDA Bulletin *Co-ops 101* (USDA Rural Business Cooperative Service, Cooperative Information Report 55, April 1997)

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<http://www.ca.uky.edu/agecon/index.php> (Issued 2005; Revised 2010)

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