Fargo, ND

QUENTIN BURDICK Center for COOPERATIVES

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North Dakota State University

Power through Knowledge

These are the faces of co-op directors learning how they can successfully grow their cooperatives in the new economy.

The Burdick Center for Cooperatives has offered three intense training sessions for CEOs and members of co-op boards.
The three-day sessions are held during winter months at a Minnesota resort to eliminate distractions and give participants the opportunity to immerse themselves in cutting-edge business strategies. Besides learning from some of the best in the business, the executives are so actively tested through case studies and group decision sessions.
The result is an intellectual bonding that should pay dividends for each individual's personal development as well as their co-op's bottom line.
This newsletter features a number of the speakers and their "nuggets of knowledge" aimed at positioning co-ops to compete successfully. Contact the Burdick Center for information on how we may help your management team strengthen their assets.

Mark Watne, Burdick Board Chair

Greetings fellow cooperative directors and managers. The so called "merger mania" that has been going on in corporate America is influencing our cooperatives at both regional and local levels. We are all searching for efficiencies while our cooperative farmer members struggle with low commodity prices and a government support system that is unresponsive to the value of what they sell. We all must realize, the way we do business is changing and will most certainly continue to change.

I want to share with you some thoughts as you position your cooperative for the future.
I am not going to say merging or getting bigger is the only answer. There are many alternatives, such as alliances, joint ventures, and/or diversification.
The real issue is whether or not you, as a cooperative leader, are willing to focuson the many opportunities that may exisit within your cooperative. Many times in the board room

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William C. Nelson
Burdick Center Director

This has been a very challenging and rewarding year for the Center. In March we initiated Module I of an executive training program for New Generation Cooperative directors. Approximately 50 persons attended in March, 1999, and over 90 persons attended joint Module I and II programs in December, 1999. As you will read later in this letter, we gathered an excellent instructional team and the programs were received very well. The planning for the next set of programs has begun in order to offer programs each December and March. The next programs will be more focused and intensive. Tentatively, the topics will be: 1. Finances, Sources of Capital and Risk 2. Markets-Discovery, Analysis and Development 3. Board Decision-Making Under Conflict and 4. Investment Analysis-Requests for Proposals & Evaluating Consultants.

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Mike Cook asks, "What happens if you lose any of your key people?" ...or the flip side, can you retain them and capitalize on their knowledge -- and is that sellable?

Should Our New Generation Co-op

Grow?

Legitimate Reasons to Grow Your Business:

Economies of scale
Use skills, reputation or facilities applied in new ways
Risk reduction
Threat of opportunism
Learning by doing

Michael Cook, PhD., University of Missouri and Murray Fulton, PhD., University of Saskatchewan, Canada presented a series during the three-day seminar for co-op directors. Business strategies were discussed to give participants the knowledge to answer the on-going question: "To grow or not to grow."

"What is your source, or sources? How will your *economy of scale* be affected? Look at your plant and/or your key inputs," they advised. "What is your cost curve?"

"Do you have *intellectual property* your company can capitalize on?" asked Fulton. "Your company size is also important. If you think of a small campfire, it is difficult to keep it going, but on the other hand, it may get out of control. The same is true with your co-op; you need to find a balance in size and personnel. Are there key parties or markets that have the potential to act in ways that could severely help or hurt you? If there are, it's important to bring them into your fold in some way."

"Know your *opportunity cost*," advises Fulton. "In other words, if I use our money over here, I can't use it over there. How much is that decision costing? Could it have made more money elsewhere?"

"How does growth affect other parts of your organization?" they asked. "Have you found an under-served market niche? Can you differentiate your product? Do you have the organizational ability to grow?"

"Don't grow just for the sake of growing," says Murray Fulton, Univ. of Saskatchewan, Canada.

Can you afford it? The make v. buy question is a classic – is it advantageous to do it yourself or should you out-source that part of your project or product?

Know your strengths and weaknesses and if necessary find a business partner to complement your weaknesses. It's important to be adaptable in order to survive. What do the trends in what's being called *new agriculture* mean to your co-op?

Find out how your co-op can participate in the next training session. Contact the Burdick Center in Fargo

"Change is inevitable.   Managing it is a choice."

Don Schriver, Dairy Farmers of America executive, told seminar listeners, "Most people want to block-out change, but you need to learn to deal with it." He quickly sized up the group of directors from accomplished new generation cooperatives and added, "Be careful not to become passive when things appear to be going well in your businesses."

Schriver was CEO of one of the four dairy cooperatives that merged in 1997 to form one of the largest U.S. companies in that industry. Since then three more co-ops have joined DFA to create a national milk supply. The merger positioned the farmer-owned company to adapt better to change, to create efficiencies in operation, to capitalize on synergies, and to allow for vertical integration from the farm to the dinner table.

Minn-Dak Farmer Cooperative Director, Jerry Meyer takes note of Don Schriver's advice at the

Change may have been painful for some. Thirteen plants were shut down following the DFA merger, and a number of employees were laid off. Within the year, the 120-person board of directors will be reduced to forty-eight members, but change can also bring rewards. Schriver said his 86-year-old dad came to their meeting last year and was in tears. The elder Schriver explained, "This has always been my dream as a dairy producer, to some day be in a position to compete nationally."

Today, DFA has formed business relationships with Borden's for the creation of cheese, Enfamil formula for babies, Starbucks because 80% of their "Frappachino" drink is milk, Frito Lay in order to provide the cheese powder on their chips, Suiza for processing, and others. The 17,500 farmers in DFA market 42.4 billion pounds of milk a year. Last year that amounted to 25% of the nation's milk products.

Communication was essential throughout the entire merger process, says Schriver. His staff did extensive research with 400 of its members from various parts of the country.

The 30-45 minute interviews revealed concerns about equity and governance.
The communication team then developed member-focused information to answer those concerns in a timely way – early in the game. Information on the merits of the merger was kept simple and straight forward and was repeated a number of times to ensure effectiveness. They found many members felt removed from the process, so materials were developed to address that criticism, and efforts were made to involve members through numerous meetings. Those sessions were targeted for the sectors most affected by the merger: delegates, members, and employees. Media packets were distributed explaining the advantages of merging the four regional co-ops into one. The process was not simple or easy – but it resulted in unification.

"The speed of change is growing!"

Schriver stressed the need for co-op leaders to follow the trends in their industry and cultivate contacts. "You never know where networking at conferences and other events will lead," he predicted. "You may start to compare notes and forge a business deal, which is what happened in the formation of DFA . The board chairmen from the four dairy co-ops had taken study tours together. That resulted in one calling the others to get together to explore the possibilities." Schriver pointed out, management didn't drive the merger, the farmers did.

"Keep the message large in the market, but small in the country."

"Smaller facts may derail your efforts," Shriver warns, "so address those details. At the same time, keep your public message broad by reflecting your company vision. When board members return home, they should be united by that vision and ambassadors for the co-op."