

QUENTIN BURDICK CENTER FOR COOPERATIVES

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P.O. Box 5636, NDSU, Fargo, North Dakota 58105-5636

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If you have built castles in the air, your work need not be lost; that is where they should be. Now put the foundations under them.

Henry David Thoreau

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Gerald Kuster

QBCC Advisory Board of Directors 1992-2002

Gerald Kuster has been a Champion of cooperatives for over two decades. He has served on numerous boards in a variety of roles. He not only believes in what the cooperative system stands for but also has been there with his time and dedication to the development and continued success of many cooperatives.

The Quentin Burdick Center for Cooperatives had the honor of having Kuster on its advisory board since it was organized in 1992. Kuster became an advisory board member representing Harvest States. He was actively involved, through Harvest States, to help raise funds for the Center's endowment. The objectives for forming the Center originally were to help educate young people at the college and high school levels about cooperatives, and to help North Dakota and surrounding areas where Harvest States was represented. Their main goal for the classes at NDSU was to develop managers and employees for cooperatives. Kuster expressed his disappointment that the funding for the Center never met the goal of \$1.5 million. The desire was for the Center to be self-supporting but this hasn't happened and this has greatly affected the progress the Center has been able to make, explained Kuster. He is grateful for NDSU and the many grants the Center has brought in to be able to staff the Center. He sees the future of the Center to continue to educate people about cooperatives. He acknowledges, for the Center to continue, it will need to be affiliated with NDSU and continue to find funding through grants for research.

Kuster said cooperatives must change from how things were done even 10 years ago, because conditions have changed, if they are to survive. The future holds many changes for cooperatives. Mergers and joint ventures with cooperatives as well with the private companies will be a must for the future of the cooperative. Kuster explains there will be a lot of mergers and consolidations in the next several years. There have been many that have already happened, but they will be coming more often and faster than in the past. Cenex Harvest States is a good example of what cooperatives must do in order to be successful. The acquisitions, mergers, and joint ventures were necessary for CHS to get the growth and size needed to compete with today's conglomerates, explained Kuster.

For a cooperative to survive today, Kuster advises them to be talking to their neighbors about working together, about joint ventures or total consolidations, or even buy/sell out, until they can get to a size they can be economically feasible. "There are less farmers every year, therefore less customers, and we just can't continue to work against each other as cooperatives. We must sit down and work together and develop cooperatives that will be successful. It is not easy, but it has to happen," says Kuster.

The farmer needs to take their products from the field all the way to the consumer, explains Kuster. The closer a farmer can get to the consumer the more dollars he can make. He spoke of
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DIRECTOR'S REPORT

We were just informed that the QBCC homepage received nearly 60,000 hits during the past two years, about 80 hits per day. When Frayne and I sum our daily phone calls and email messages, it means that the QBCC has over one hundred contacts per day. Communications is an important part of what we do and the Internet homepage is a very important part of our outreach, education and communication strategy.



Highlights of our homepage are:

**Announcements of our activities, especially upcoming training programs, presentations, news articles, newsletters and publications of research completed*

**Listing of publications including marketing and feasibility studies dating back to the 1960s*

**Links to other sites of cooperatives, organizations related to cooperatives, state statutes related to cooperatives and value-added agriculture*

**North Dakota Coordinating Council for Cooperatives – Minutes and activities of the Council are reported as is information pertaining to Cooperative Month*

** The annual Bloomquist Lectures are published. Each year an individual who has contributed much to cooperatives is honored as The Bloomquist Lecturer.*

**Open access to the Internet based NDSU course, 374 Cooperatives. All materials including the classroom PowerPoint presentations, reading materials, problem sets, quizzes and tests and the answers, etc., are accessible through this link to the NDSU Blackboard system, by clicking educational materials on QBCC website.*

The homepage address is: <http://www.ag.ndsu.nodak.edu/qbcc/> **CHECK IT OUT!!**

Another change that we added recently is a common QBCC email address, ndsu.qbcc@ndsu.nodak.edu, which is then forwarded to Nelson, Olson and Lougheed. If communication is directed toward QBCC business, please use the QBCC email address.

Gerald Kuster (cont from page 1)

Venture Foods, as an example of how CHS has done just that. A cooperative doesn't need to own the whole company or even a majority share to make a joint venture a success. CHS first owned only 30 percent of Venture Foods.

"Today the young farmers are doing whatever they have to, to survive. The loyalty isn't there anymore like it used to be, and one can understand why, but still we need leaders to pick up and keep these cooperatives going. The need is still there."

The merger of Cenex and Harvest States happened in 1998. Kuster takes a lot of pride in the role he played in the merger. He feels the merger made sense because about 90 percent of the members were members in both cooperatives. The main goal of the merger was to see a \$40 million savings realized in the first five years. This goal is almost realized. Another goal was to create efficiencies working together and to set examples that the locals could see and follow. The merger gave the cooperative a larger balance sheet, and has enabled both cooperatives to do things they couldn't have done alone. Kuster feels the cooperative has been able to move ahead faster because of the merger.

Kuster hopes the Burdick Center will continue. He says the need is there and the Center is established. He feels the cooperatives need the education, and that education is never ending. He takes pride that he was part of its development.

"Behold the turtle. He only makes progress when he sticks his head out." James Bryant

Up and Coming Training Programs

Two Major Training Programs Are Being Offered in 2002

QBCC will be co-sponsoring with Michigan State University on the “*Cooperative Governance*” program. This is an expansion of our December 2001 program. This 2 1/2 day session will focus on similar topics: roles and responsibilities of Co-op directors, conflict and confidentiality issues, and will include small group exercises, and director performance evaluations. The program is scheduled for August 20-22, 2002 in Michigan. For more information call Jim Le Cureux at 517-550-8307, or email- lecureux@msue.msu.edu, or Bill Nelson at 701-231-1016 or email- ndsu.qbcc@ndsu.nodak.edu.

A two day Executive Training Program for Cooperative Directors is being planned entitled, “*Accurate Financial Reporting: The Responsibilities of the Audit Committee.*” The goal is to increase the financial literacy of cooperative board members, with a special emphasis on the unique roles and responsibilities of the board’s audit committee. Some of the topics that are planned include: recognizing creative accounting practices, proper financial reporting and audit of joint ventures, selecting an audit firm, and using the audit firm for other financial/consulting services.

COOPERATIVE OR CORPORATION?

There has been much discussion about what really happens when a cooperative converts to a corporation. In an article written by Bill Nelson and Frayne Olson, director and associate director of the Quentin Burdick Center for Cooperatives, NDSU, they state there are trade offs when such a conversion occurs and members must look at how the three basic cooperative principles will be compromised if such a conversion happens. The three principles they reviewed are member control, member ownership and member benefit.

Control

Most cooperatives practice member control as meaning each member has one vote regardless of the amount of business done with the cooperative, or the amount of member investment. In a corporate structure, the number of shares owned by the investor controls the number of votes. Conversion to a corporate structure would change the control of the business from patrons on a one-member equals one-vote basis to multiple votes based on the number shares owned by the investor. The corporate structure would allow the possibility of a few people to gain control over the business through the purchase of sufficient shares and/or the proxy votes from other owners. The control issues that must be addressed are:

- The importance of continued farmer control.
- Importance of continued control within the region.
- Possibility of control gained by a national or multinational firm and the impact of that occurrence.
- Performance of a farmer-dominate board versus an external investor dominated board.
- The impact of the board composition (farmer or investor) on stock values, liquidity, debt acquisition, and additional stock sales.

Ownership

The type of ownership does have a significant impact on the financial aspects of the business. There are some financial institutions that loan only to cooperatives. There are several federal and state sources of money that are available only to cooperatives. An example of this is CoBank that loans money to cooperatives and returns patronage dividends back to the borrowers that reduce the net interest cost. Member equity for a cooperative can come from both direct member investment, and from retained business profits. There are many means of securing nonmember equity capital for a cooperative including retaining unallocated capital, mergers with other cooperatives, joint ventures among cooperatives and joint ventures with corporations. Equity in a corporate entity can come from anyone who has money, the willingness to invest and from any place in the world. A corporate entity has a larger pool of investors than a cooperative. A corporation can trade existing shares, issue new stock, and use stock swaps. The value of stocks become more volatile due to the wider variety of potential investments and the ease of buying and selling shares.

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Executive Training Programs:

“**Roles and Responsibilities of Cooperative Directors - Do’s and Don’ts**” was the title of the December 2001 training program sponsored by the Quentin Burdick Center for Cooperatives. The program located in Fargo was well attended and well received by those who attended.

Robert Hensley, from Dorsey & Whitney, LLC., was the keynote speaker. His experience as an attorney for Tri Valley Growers gave some unique insights to how important the responsibilities of the board of directors are.



Robert Hensley

David Barton, director of the Capper Center for Cooperatives, and **Roger Ginder**, cooperative specialist from Iowa State University, spoke on the “Roles and Responsibilities - Directors to Members, to Management and to the Cooperative.” Barton said there were three primary roles and responsibilities of the board of directors. These were to provide management supervision, provide organization leadership and direction, and to establish a governance system. Barton went through the four attributes of high performance boards: knowledge, information, power and rewards. For a cooperative to be successful, states Barton, one must bring the right people together, give the people a challenging vision, and educate the people on how to work together. Ginder went through the five basic board functions. These were decision making, advisory, trustee, perpetuating and symbolic. He later spoke on understanding the financial statements, and the organization of the board.



Roger Ginder

The side of the management came from the views of two CEO’s, **Dave Roche** of Minn-Dak Farmer’s Cooperative, and **Jim Horvath**, from American Crystal Sugar. Roche went over four key points of a successful cooperative. An organized and energetic board of directors must be committed, informed, understand the roles, and be able to communicate effectively with management. A cooperative must avoid micro-managing and often the lack of understanding the role of director was the cause. Horvath pointed out the five key questions a board must answer are: What business are we in?, What is our mission?, What are our values?, What are our goals?, What are our strategies?, and What are our policies?. He said there must be a partnership between the board and CEO where they can respect each other and their roles, to achieve the long term maximization of the shareholder’s wealth.

Conflict and confidentiality issues were addressed by Steve Noack, Gunhus Law Firm, Dave Swanson, Dorsey & Whitney, LLC., and Wayne Schmaltz, Eide Bailly, LLP.



COOPERATIVE OR CORPORATION? (cont from page 3)

Benefit

A member/patron receives benefits from their stock ownership through the sale of their product to the co-op, equity stock appreciation, the right to trade stock with other farmers, and the allocation of profits through patronage refunds. Under a corporate structure the delivery and sale is optional. Allocation of profits as dividends will depend on the corporation as they try to retain profits to grow the business or reduce debt.

Members must be aware of tax implications in a conversion. Cooperatives have the ability to reduce or eliminate their tax liability by allocating business profits to patrons and establishing a “single tax” policy. A corporation has to pay taxes on business profits and dividends paid to investors, and investors are taxed again. When an investor sells his stock, the increased value minus the investment value is considered capital gain and is taxed at a reduced rate. The marginal tax rate for a cooperative member is typically lower than the marginal tax rate for corporations and their stockholders.

Major issues and questions members of a cooperative should think about when considering a conversion according to Nelson/Olson are:

- Is the relationship the same between the basic fundamentals of the business and the value of stock for a cooperative and a corporation?
- What effect will the conversion have on the allocation of profits to investors?
- What effect will the conversion have on the tax burden and after tax returns of the owners?

Nelson and Olson suggest to any member of a cooperative considering such a conversion to gather information, listen carefully to all sides, ask questions about the issues, and consider the pros and cons before casting their vote.

“Keys to Starting and Operating a Successful Value - Added Cooperative” training session held on January 9, 2002. It preceded the Marketplace of Ideas program in Grand Forks, ND.

Randall Torgerson from the USDA was the keynote speaker and spoke on “The Strengths and Weaknesses of the Cooperative Movement.”

Torgerson explained the strengths of the cooperatives are built on ideals of self-determination, self reliance, and self help. Cooperatives are a form of economic democracy in action that helps provide a method of product control and participation in upstream and downstream activities. The main weaknesses Torgerson mentioned included the length of a decision can be longer and influenced by the “if it ain’t broke, don’t fix it” mentality and a lack of diversity because it is directly farm related to a single market, or bundle of services. There are limited sources of financing based on member financial resources when maintaining user-owned character of business.



Randall Torgerson

With the formation of New Generation Cooperatives, Torgerson mentioned several examples of how practices can sometimes bring problems in their operations. He blames several conceptual limitations or faulty business practices that were allowed to be adopted, five of these he talked about in detail.

- Ownership of delivery rights outside of one’s own production
- Off-market purchases
- Leasing of delivery rights
- Splits creating shares that exceed production capability
- Keeping delivery rights in the hands of active producers

“Cooperative principles work very well when put into operation”
Randall Torgerson 2002

Bill Patrie from the Dakota Cooperative Development Center addressed “The Cooperative Development Process”. There are components that must be addressed by any business or organization to be successful, according to Patrie They are dollars, an owner of the business, markets, distribution, process of adding value and procurement. Patrie elaborates that a business needs an owner who wants to be in the business, has the ability to lead, and believes the business will succeed. Markets are different than market development says Patrie. The owner must understand the market for his product and not assume a market. Distribution is critical. He mentioned several examples of how one owner understood the distribution of his product and took advantage of the opportunities. In adding value through processing and manufacturing of a product he talked of the two things one doesn’t want to do at the same time. One is to introduce a product that is new to the market and to have untried technology to manufacture the product. He encouraged businesses to find the right people with the kind of experience they need. Procurement was the last component he spoke of. He mentioned many of the factors involved in this component including transportation, government, rural development agencies, members, and delivery schedules.



Bill Patrie

Patrie explained the steps one must go through to have a successful cooperative. These included finding a project champion, steering committee, doing a feasibility study/opportunity assessment, going through the legal aspects, finding/hiring/managing consultants, creating a business plan, doing an equity drive, finding financing, and creating and nurturing the cause of the co-op.

Don Hofstrand from Ag Ventures Alliance spoke about “The Role of Alliances in Value-Added Cooperative Formation.”

Hofstrand spoke of the six values for leaders of an alliance. These were build business creation skills, interact with others with similar interests, idea synergies, build relationships, investigation capital and equity capital. Three values of members are direct notification of and information about value-added business opportunities, higher quality business ventures, and an array of business opportunities.



Don Hofstrand

“The biggest shortage is farmer leadership”
Don Hofstrand

Timing is extremely important, says Hofstrand, when getting into the industry. Industry cycles are stable, then they go through a period of upheaval, then are stable again. When deciding to enter an industry one must make an accessment when it is the right time.

“Cooperatives and Communities”

8th Annual Al Bloomquist Lecture Series

The 8th Annual Al Bloomquist Lecture, held in Fargo ND on April 3, 2002, featured the honorable Robert S. Bergland. He referred to cooperatives as an “Economic Democracy.” He says cooperatives are based on communities and on that community’s values. He went on to say “They build on behalf of the community economic interest, they are owned and controlled by the communities in which they are situated, they are not in it primarily for the money, they are in it to provide a service that in many cases would not be provided.”

A business needs to be big enough to serve, explained Bergland. He said a cooperative must have access to the latest in technology and access to all that is required to operate within the community, but remain small enough to know what it is all about. A cooperative needs to know why it is here, to know why it was formed in the first place and what purpose is served. If it doesn’t serve something about and beyond that which is served by an investor enterprise, said Bergland, the cooperative is making a huge mistake. Rural America is literally held together by the non-farm job economic activity. He explained, if it weren’t for the non-farm jobs there wouldn’t be anything left of most of rural America and termed it a “social desert”.

It is clear that economic activity in almost every community starts at home. There must be leadership at home, Bergland explained, without it nothing is going to happen.



George Sinner and Al Bloomquist

Bio-industrial products, a new term, is the use of some biological material for an industrial application. This new technology is not only researching new sources of energy, but also is in the food and health industries. Bergland talked of golden rice, and the hope of this product to have huge health benefits worldwide. He said the bio-industrial products today generate \$27 billion in income, and it is projected to grow to \$500 billion in just 10 years.

The federal policy today is to keep the pipeline filled with cheap commodities said Bergland. We have a market based scheme. The farmer is told to grow what the market wants, traditional crops, but the farmer can’t make money on any of those anymore even with a terrific yield. Bergland explained that there isn’t a thing a farmer can plant on the basis of a future market contract that he can break even. “The market signals say don’t grow, but the federal government says if you do, we will pay you subsidies and they do, big time.”



Bergland concluded the United States, the world’s largest food producer, is caught in the crosswind due to other countries now supplying their own food supply. “We have two choices, either to retire acreage, or drastically increase the rate in which we utilize these commodities in some sort of a non-traditional application.”



Robert Bergland is currently a member of the University of Minnesota Board of Regents. A graduate of the University of Minnesota, Bergland served as a member of United States Congress (1979-1977) in the 7th district and served as the U.S. Secretary of Agriculture under President Carter (1977-80). He was president of Farmland World Trade from 1981 to 1983 and general manager of the National Rural Electric Cooperative Association (NRECA) from 1983-1993). He represented the rural electric cooperatives before Congressional committees and regulatory agencies.

Bergland retired both from private and public sectors in 1994 and lives on the family farm where he was born and raised near Roseau, Minnesota. He is active in promoting rural community and economic development.

He earned the prestigious Siehl prize for production agriculture in 1997.



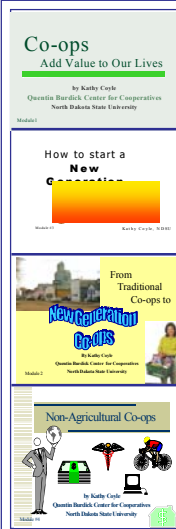
“Cooperatives have been and need to continue to be a very important part of our lives.” Robert Bergland

“There are two primary choices in life: to accept conditions as they exist, or accept the responsibility for changing them” Dr. Denis Waitley

QBCC Cooperatives Class

Any one wanting more information about cooperatives can access material currently being used for the NDSU Cooperatives Class. This material is available over the Internet with a password. If you go into <http://www.ag.ndsu.nodak.edu/qbcc>, click on educational materials, scroll down and click on Ag Ec 374-Cooperatives. You are now on the blackboard website. You will need to create a new account so click on the "new account" button, fill out the information needed and click on create new account at bottom of page. Return back to blackboard and click on Agribusiness and Applied Economics, and scroll down and click on Cooperatives.

This past year several instructors from around the country contacted the Center for access to the website and to purchase the Cooperative Learning Modules. Please contact QBCC for more information.

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|  | <h3>COOPERATIVE LEARNING MODULES</h3> <p>Four Powerpoint learning modules, used in the Cooperatives Class at NDSU are now available to anyone for \$20. They are narrated and designed to help teach about cooperatives. Information can be obtained by contacting Bill Nelson at 231-1016 or ndsu.qbcc@ndsu.nodak.edu</p> |
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Minn-Dak Farmer's Cooperative and Quentin Burdick Center For Cooperatives Wrap Up Year's Long Collaboration Effort

"Leadership, Discovery and Development Through Strategic Analysis"

The task force groups of Minn-Dak Farmer's Cooperative presented their findings of a one-year leadership, discovery and development project in February 2002. This collaborative pilot program between Minn-Dak and the Quentin Burdick Center for Cooperatives brought 26 young cooperative members together to learn more about their industry and ways to improve their cooperative structure. These members had the responsibility of finding information about one of four topics concerning

their cooperative and if possible bring new ideas to the table. Minn-Dak's topics were sugar industry, sugar policy, membership involvement, and web site development. Three groups felt their findings had merit and were worthy of presenting their findings to the board of directors and upper management. The overall responses from the board of directors were favorable and thought the groups had done a good job. One board member said, "I would like to commend the group for the research you have done,it is commendable."



The objective of the program was to develop new informed leadership within the cooperative. The idea was to choose different topics of interest concerning the cooperative, let the members choose what topics they wished to research and give them the resources to gather information. The members designed a computer generated presentation to present their findings. The members developed knowledge of their topic and gained skills in research, interviewing, working in teams, and presentation. Several ideas brought to the board will be looked at further for possible incorporation into the cooperative structure.

"I would like to commend the group for the research you have done,...it is commendable."
Minn-Dak Board Member

The long range goals for these members is to continue to be active in their cooperative and to be able to use the knowledge they learned to continue to improve their cooperative. The skills they learned through their research efforts, and presenting their findings are skills they can use in other areas of their lives.

Research and Training Services Available at QBCC

In this day and age, every advantage needs to be taken for the success of your cooperative. QBCC meets this need by offering research and training services dedicated to the future success of your cooperative. Please contact Bill Nelson at 701-231-1016 or bill.nelson@ndsu.nodak.edu if any of the following interest you and your cooperative.

Research: Dedicated QBCC staff conducts marketing studies and feasibility analysis for start-up and expanding cooperatives. We can arrange for impact assessment studies by Dr. F.L.Leistriz and his team. These services are provided on a partial fee basis.

Training: QBCC presents Executive Training programs each year for the “New Generation” processing cooperatives. We also individualize training sessions to the needs of your cooperative for your members and directors or related groups of cooperatives. These are on a partial fee based.

More information can be found at QBCC website: (<http://www.ag.ndsu.nodak.edu/qbcc>).

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