

# NEWS FROM THE QUENTIN BURDICK CENTER FOR COOPERATIVES

QUENTIN BURDICK Center for COOPERATIVES

## CURRENT TRENDS AND CHALLENGES FOR COOPERATIVES

Data indicate that approximately 40,000 cooperatives operate in the US economy, with over 21,000 of these easily identifiable within their respective product markets. Their economic impact is being felt by millions of Americans through agriculture, utilities, retail, and hardware cooperatives. Total revenues for the top 100 cooperative businesses neared \$141 billion. North Dakota is home to hundreds of cooperatives, circulating billions of dollars within our local economies.

Under such favorable conditions, it is appropriate to consider developing skills which promote the long-term success of cooperative businesses. This includes recognizing when and how market factors will affect the sustainability and level of profits made available to our members. Changes in the world marketplace, such as increasing international trade in agriculture, and the developing "food vs. fuel" debate

will require cooperative leaders to participate in markets that either do not exist today, or to adjust their strategies so they remain competitive within their customary product and geographic markets.

In this newsletter, I describe some efforts I have made this past year to identify some of these issues. These include changes in the structure of cooperative businesses (such as LLCs or NGCs) relative to traditional cooperatives; the extent of the economic impact of cooperatives across the U.S.; a study of the steps taken by a local cooperative to generate a value-added product; and a set of references that describe the developing ethanol and biodiesel industries, and how these may affect cooperatives.

**Winter 2007**



Dr. Gregory McKee is the new Director of the QBCC

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## MEET THE NEW DIRECTOR

Dr. Gregory McKee was named Director of the Burdick Center in January 2006. He is professor of Agricultural and Applied Economics at NDSU. Since his arrival he has taught a course on cooperatives at North Dakota State and Dickinson State Universities, followed by a course on agribusiness strategy to seniors in the Department of Agribusiness and Applied Economics.

He has also written or collaborated on three research projects associated with cooperatives this year.

Dr. McKee grew up in California's Central Valley. After high school, he attended college at Brigham Young University, where he received a B.A. in Economics. Following this, Dr. McKee worked as a consultant for the Law and Economics Consulting Group. He then

## MEET THE NEW DIRECTOR, CONT'D

attended the University of California, Davis and received M.S. and Ph.D. degrees in Agricultural and Resource Economics. His research there focused on the individual and cooperative strategies for managing outbreaks of invasive species. Dr. McKee and his wife, Lisa, have two children.

By coordinating research and educational efforts with the Advisory Board, Dr. McKee plans to increase the visibility of the Burdick Center as a source of university-level education about the cooperative movement and as a

source for collaborative research about the cooperative business form. The advisory board has approved and encouraged additional case studies, two of which are under development at present in collaboration with a graduate student. Educational efforts have expanded with a 2007 offering of the undergraduate Cooperative class, with 53 students registered for the class at both NDSU and Dickinson State University. The Center will no longer offer professional training workshops, however.

## CASE STUDY: UNITED SPRING WHEAT PROCESSORS

Dr. McKee conducted a case study of the process associated with the development, operation, and dissolution of value-added cooperatives. A prominent local example was the United Spring Wheat Processors cooperative. This company was formed in 1996 as a value-added processor of hard red spring wheat. It obtained equity from members in a series of three funding drives,

used to operate a par-baked dough baking facility in McDonough, GA, using state-of-the-art equipment. Though the cooperative achieved some substantial successes, it ceased operations in 2003 due to persistent technical failures. The circumstances that led to the closure of the cooperative can be used to extract important lessons for future value-added ventures.

*“The circumstances that led to the closure of the USWP can be used to extract important lessons for future value-added ventures.”*

## FINANCIAL RESEARCH: RETURNS FROM NGCS AND LLCs

Dr. McKee collaborated with Dr. William Njanje and NDSU graduate student Chancel Ada to study how equity expectations affect the financial performance of LLCs and NGCs. New Generation Cooperatives (NGCs), specializing in value-added processing of agricultural output, are undergoing structural changes to signal to both patron and non-patron investors their viability and attract additional equity

to alleviate perceived financial constraints. These include the acceptance of non-patron investor equity and demutualization into Limited Liability Companies (LLCs). However, the effect of these changes has introduced added complexity on equity expectations, and on providing incentives for patrons to continue doing business with the cooperative. We developed an investment decision model and use data

**NGCs  
&  
LLCs**



*Growth expectations and social capital affect investor interest in LLCs and NGCs.*

## FINANCIAL RESEARCH, CONT'D

of stocks traded between patrons, a major source of information used by investors, to analyze the impacts of expectations of change in equity growth and social capital on the realized rate of returns for NGCs and for LLCs. Our findings delineate the usefulness of growth expectations and social capital benefits for attracting non-patron equity to ameliorate perceived financial constraints, and their effective-

ness at resolving the adverse selection problem for patron and non-patron investors.

A full copy of this report is available from Dr. McKee.

## QBCC INVOLVEMENT WITH OTHER COOPERATIVE RESEARCHERS

Dr. McKee participated with other academic and professional members associated with the cooperative business model in the annual meeting of the NCERA-194 integrated research and education committee, sponsored by the USDA. While there, he discussed the nationwide economic contribution of cooperatives and the difficulties associated with measuring the impact of this business sector. Other participants discussed common

features of well-performing cooperatives, revolving fund equity retirement programs, the feasibility of a winery cooperative, and the story of the conversion of the Saskatchewan Wheat Pool to a publicly traded entity and its associated results. Dr. McKee currently serves as the vice-chair of the NCERA-194 committee. More information can be found at: <http://www.agecon.ksu.edu/accc/ncr194/ncr%>

## COOPERATIVES AND RENEWABLE ENERGY

In November, the University of Wisconsin Center for Cooperatives hosted its annual Farmer Cooperatives Conference. This year, experts from the governmental policy, research, and agricultural cooperative sectors discussed cost and supply problems associated with increased production of renewable energy. Among the topics were expected changes in the upcoming

farm bill with respect to renewable energy; the role of state governments in renewable energy; and the potential impact of ethanol and biodiesel on corn and soybean prices. More information about this conference can be found at: <http://www.uwcc.wisc.edu/farmercoops06/index.html>.



*Cooperative business leaders and researchers gathered to discuss renewable fuels.*

# QUENTIN BURDICK Center for COOPERATIVES

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The mission of the Quentin N. Burdick Center for Cooperatives is to conduct, promote, and coordinate university education and research on cooperatives, to strengthen cooperatives' operation, and to work toward expanding employment and economic opportunities through cooperatives.

We're on the web. Find us at  
<http://www.ag.ndsu.nodak.edu/qbcc/>

## QBCC EVENTS OF 2006 AND UPCOMING EVENTS

### Bloomquist Lecture

In March 2006 the Burdick Center sponsored the 14th annual Bloomquist Lecture, featuring Mr. Vern Dosch CEO of the Mandan, ND-based National Information Solutions Cooperative. His remarks described benefits from using the cooperative business model in the computer services market. A transcription of Mr. Dosch's remarks can be found at [http://www.ag.ndsu.nodak.edu/qbcc/BloomquistLectures/AI\\_Bloom\\_Dosch.pdf](http://www.ag.ndsu.nodak.edu/qbcc/BloomquistLectures/AI_Bloom_Dosch.pdf).

**The 15th annual Bloomquist lecture will be held on April 12, 2007 in Fargo.**

### Getting Acquainted

Dr. McKee traveled to locations in ND and MN to get acquainted with members of the cooperative business

community. He anticipates continuing to establish contacts with cooperative leaders in both states.

### Burdick Biography

In cooperation with the NDSU Institute for Regional Studies, the biography of the late senator Quentin N. Burdick will be published in early 2007.

### Internships

The QBCC is interested in working with businesses throughout the state, in connection with the NDSU Department of Agribusiness and Applied Economics, to identify internship opportunities in cooperatives. These opportunities help develop skills students need to become the future managers of our cooperatives. If you are interested in working with students familiar with the cooperative business model, please



*Above: Vern Dosch presented the 14th annual Bloomquist Lecture  
Below: the biography of the late senator Quentin N. Burdick is expected in early 2007.*



## QBCC ADVISORY BOARD AND MEETING SCHEDULE

The Advisory Board consists of the following members: Bruce Anderson (CHS), Don Anderson (NDSU), D.C. Coston (NDSU), Everett Dobrinski (CoBank), Mike Eggl (Basin Electric), Scott Handy (NDAREC), Dennis Hill (NDCCC), Ron Johnson (NDSU), David Lambert (NDSU), David Loer (Minnkota Power), Greg McKee (NDSU), Alan Qual (Cass Clay Dairy), Mark Watne (NDFU), and David Wells (NDSU).

The Board meets two to three times annually during the following times: in conjunction with the Bloomquist lecture (early spring), the ND state fair (July), and early in the fall. If you would like to have an item discussed by the board, notify Dr. McKee.