

QUENTIN BURDICK CENTER FOR COOPERATIVES

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INSIDE THIS ISSUE:

<i>Director's Report</i>	2
<i>Ag Career Day</i>	2
<i>Training Sessions</i>	3
<i>Cooperative Formation</i>	4
<i>Cooperative Internships</i>	6
<i>Child Care Co-ops</i>	7



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“Facilitated Program on Strategic Planning”

The level of planning in any organization is vital to the success of that business. Has the cooperative’s Board of Directors done enough planning to have a consensus of a clear organizational direction for the cooperative? Has the board recently gone through a strategic plan and can answer the following questions?

- Why does the cooperative exist and what does it seek to accomplish?
- What is the cooperative’s status today? Has the Board gone through a current situation assessment?
- What are the cooperative’s strengths, weaknesses, opportunities and threats? Is the cooperative ready to build on the strengths, correct the weaknesses, take advantage of opportunities and counter threats?
- What are the principles or beliefs that guide the cooperative’s members as they pursue the cooperative’s purpose?
- Does the cooperative have a vision statement and is it understood by the Board of Directors?
- Does the Board of Directors understand the strategies, goals and objectives of the cooperative? Do the strategies, goals and objectives need to be updated?

If not, this program should definitely be attended!

QBCC would like to invite the Board of Directors and upper management of six cooperatives to attend a multi-cooperative program on strategic planning. The program will combine orientation sessions on each major step in strategic planning with time for each to complete the step. Planned for March 17-19, 2003, this program will work with the cooperatives so they will each have a draft of a strategic plan by the end of the program.

Work sessions will give each Director the chance to go through the steps of strategic planning. The steps in the process will include 1. Self inventory of current status using the internal “Strengths and Weaknesses”, and external “Opportunities and Threats” approach (SWOT), 2. Formulation of a vision statement (or review of existing statement) and of general goals, 3. Movement from goals to specific objectives containing time and quantity indicators, and 4. From objectives to activities to be conducted to achieve each objective.

This program is limited to six cooperatives. For more information and/or preregistration contact Bill Nelson at 701-231-1016 or email us at ndsu.qbcc@ndsu.nodak.edu.

DIRECTOR'S REPORT

Farmland, Agway, Spring Wheat Bakers, Minnesota Corn Processors, Dakota Growers Pasta, South Dakota Soybean Processors, etc., the list of agricultural cooperatives in trouble and cooperatives changing to non-cooperative status is long. In addition the new Wyoming cooperative statute that basically has placed a “cooperative” label on limited liability companies/partnerships including non-patron investors on the board is being considered in Minnesota and Wisconsin. It is intended to solve the equity capital scarcity problem of cooperatives, but it brings tradeoff of return to investors in the form of dividends versus return to patrons in the form of service and prices. From one perspective it appears that the cooperative form of business is in serious trouble. However, the list of corporations that have failed recently is substantially longer and has caused much more economic hardship than cooperative failures. So is the core problem the structure of cooperatives or is it more general?



To answer the question, one needs to start with the business cycle, the sustained economic boom during the 1990s led some to question the validity of the business cycle, i.e., it was an obsolete concept and we now could manage an economy without the “down” portion of the cycle. Very different business strategies are called for if the economy is in a period of sustained long-term growth than if a recession/depression is just around the corner. Corporations and cooperatives alike adopted management strategies of high growth financed by debt and/or stock sales. The only way to survive was to grow, be among the largest in the industry, regardless of debt loads, risk incurred, or profitability of the expansions. Stock options as partial payment to management, intended to provide incentives to management to improve profitability led instead to short term management and accounting procedures aimed at enhancing end of the year financial statements and/or stock values. When the economy slowed and markets weakened, corporations and cooperatives found themselves very vulnerable and many failed. One needs to remember that most cooperatives have performed well during this time period and continue to operate with solid financial statements.

So what's the problem, the economy, the markets or management (including boards of directors). There is general consensus that the real root of the problem is management. Management adopting strategies that were not sustainable or making decisions without proper concern for the risk incurred or long term goals of the owners (members). It also is clear that management is defined as the CEO, CFO, other top officials, and the board of directors. Directors frequently were “enablers” of ambitious growth oriented managers who focused on the short-term growth rates and stock values and were willing to place the business under substantial risk to achieve their goals.

Lessons Learned—directors cannot avoid responsibility for the performance of the business they have been entrusted. Cooperative directors are responsible for adopting policies and approving business strategies.

(cont -page 5)

Ag-Career Days at NDSU

There are many agricultural businesses throughout the United States represented at the Ag-Career Fair at NDSU. The fair is held once a year during.

We would like to encourage your cooperative to participate in the career fair. It is an excellent opportunity to talk with students and prospective employees. For more information on how your cooperative can participate contact Becky Leitch, 701-231-8641.

Michigan State University and QBCC Teamed Up for Cooperative Governance Training Session

A very successful training session occurred in August when the QBCC and Michigan State University joined forces. Fifteen people representing a variety of cooperatives from the Michigan area attended the 2 and 1/2 day session in Boyne Falls, Michigan. The session focused on the responsibility of the directors to members, management and evaluation, conflict resolution, policy vs. management, confidentiality, conflict of interest, outside directors, and a significant emphasis on performance evaluation.

The keynote speaker was Robert Hensley of Dorsey & Whitney LLP. He spoke on the “Challenges and Responsibilities of a Cooperative Director Today.”

“Accurate Financial Reporting: The Responsibilities of the Audit Committee.”

A two day Executive Training Program for Cooperative Directors was held on December 16-17th, 2002 at the Arrowwood Resort, Alexandria, Minnesota. Over 29 people attended representing several cooperatives. This training session was requested by a local cooperative who contacted Quentin Burdick Center for Cooperatives last summer. They wanted a special training session to cover the areas of financial reporting and the importance and responsibilities of cooperative audit committees. Speakers included Dr. Roger Ginder, Iowa State University, Robert Hensley, Dorsey & Whitney LLP, Dr. Thomas Buckhoff, North Dakota State University, and Robert Beerbe, Illinois Agricultural Auditing Association and John Christianson, Christianson & Associates.

Up and Coming Training Programs

“Keys to Successfully Contracting Consultants”

This three hour session will be held on January 14, 2003 from 1:45 pm to 4:45 pm prior to Marketplace of Ideas at the Alerus Center in Grand Forks, ND. The Agenda will focus on 1) Why do you want/need a consultant; 2). Writing the “request for proposals” and the contract; and 3) Selecting the consultant.

Speakers will include Dr. Bill Nelson, Director of QBCC, Frayne Olson, Asst. Director of QBCC, Don Holfstrand, Co-director of Iowa State Value-Added Marketing Center; Steve Noack, Gunhus Law Firm and Mark Watne, Economic Development Specialist with North Dakota Farmers Union.

Cost for this session is \$15 per person. For preregistration please contact QBCC at 701-231-1016 or email us at ndsu.qbcc@ndsu.nodak.edu.

“Workshop on Value-Added Agriculture and Cooperative Formation”

QBCC is cosponsoring a workshop in Maryland in February, 2003. The topics to be covered include 1) Why value-added agriculture?; 2) The role of Cooperatives and LLC's; 3) The major steps on cooperative formation-market research, feasibility study, business plan, legal documents, and equity drive; and 4) Break out sessions on specific possibilities.

Speakers will include Dr. Bill Nelson, Director of QBCC, Frayne Olson, Asst.. Director of QBCC, and David Swanson, Dorsey & Whitney, LLC.

Keys to Successful Cooperative Formation and Operation

Many corporations and cooperatives alike are struggling to stay alive in the present day economy. It really doesn't seem like one structure is working any better than the other as there are both corporations and cooperatives that are thriving in today's economy. So what do these businesses have, and what do the new companies need to pay attention to, to be able to survive in the future. Look at those that are doing well, and pay attention to what they are doing.

New cooperatives are being formed but they are different than the cooperatives of the past. The past opinion used to be the company had to be really big to be significant and successful, and to compete with the larger, already established, companies according to Bill Nelson, Director of Quentin Burdick Center for Cooperatives. Now the cooperatives are finding a place in niche markets as MinAqua found in live tilapia, as other cooperatives have found in wind energy, ethanol, and dairy production. Agraria is looking at a niche market in the restaurant business with the slogan, "From our fields to your table".

Starting a successful cooperative in today's economy isn't easy. One needs to examine many crucial steps that would take the product being offered to the market in many kinds of scenarios.

Bill Nelson and Frayne Olson of QBCC feel there are several questions a person needs to ask when developing a new cooperative or investing in an existing one.

- 1) Has there been a comprehensive analysis for the market for the products or services the cooperative will be offering? Is the service or product something that the consumers want? Just because the investors think the idea or concept is good and they can provide it – is it really what the consumers want or are the investors using - "Have a product then find a market" type of approach. Research the competition. How and what are they doing? How is their product similar and different from yours? What market entry strategy does the cooperative plan to implement?
- 2) Has there been a realistic cost and risk analysis done? How do the numbers look? Has there been enough "what ifs" put into the equation to still have an accurate picture of possible long-range outcomes? What are the key items that influence the bottom line? Are these the things that need to be monitored?
- 3) Does the cooperative have a vision and mission statement? Have they done a business plan? Do the investors know why the cooperative was formed, what is its purpose and what direction is the cooperative going? Is there a detailed business plan as to how the cooperative is going to accomplish the vision and mission statements?
- 4) How much capital support does the cooperative have? In start up, a cooperative should have at least 50 percent of the equity needed according to Olson. Is the capital support there and available when or if the cooperative needs it when it goes through tough times?
- 5) Is the cooperative diversified? In a niche market? Is the technology they are using or planning to use proven or is it new? Unproven technology has led to failure of at least two value-added cooperatives according to Nelson. A diversified business can be good when one product has trouble, while another product is successful. Having too many eggs in the basket can also hurt the overall success of the business. Perhaps the product is in a niche market. Sometimes a niche market is easier for a start up cooperative to enter and be successful. There have been several success stories once this market is found. Niche markets can also be short lived, as when one business is successful, many will follow to try to get market share or when there is a market shift, such as in fads, or the need for product isn't there anymore.
- 6) How knowledgeable and qualified are those in charge from the steering committee, the board of directors, and the manager? Are you willing to pay the price for the best-qualified people to manage the cooperative? It takes different managerial characteristics to successfully start a business than to manage an on-going business says Nelson. Top management isn't cheap, but with it comes experience, and connections that in the long run could pay off. Are the board members visionaries? Are they making decisions with the future of the cooperative and industry in mind? Can they implement the business plan to achieve the objectives of the cooperative?

*"It's not the will to win, but
the will to prepare to win that
makes the difference."*

Coach Bear Bryant

There are no concrete answers to the questions. Each member/investor must decide for themselves with their situation whether or not the investment in a cooperative is a good decision for them.

Quotes from cooperative leaders who participated in the January 2002 - QBCC Workshop - “How to Successfully Start and Operative a New Generation Cooperative”

“Fast is slow and slow is fast.” Daryl Dukart-Cloverdale Growers Alliance

“Hire experience, embrace change, fish when, where and for the fish that are biting.” John Rice-Dakota Growers Pasta

“Don’t bite off more than you can chew.” Steve Enger-Northern Produce

“Can’t have too much equity, unproven technology is high risk; search for and accept all the help you can get.” Tim Dufault-Farm Connect & Spring Wheat Bakers

“Check and double check everything, don’t take anyone’s word.” Keith Peltier-AgGrow Oils & Proseed

“Be easy to do business with, commitment and persistence.” David Mervin-Dakota Lamb Growers Cooperative

“No wishful thinking, be sure spouses are supportive.” Dwight Bassingwaite-Dakota Beef Cooperative

“Build your business creation skills, interact with others, build relationships, and create idea synergies.” Don Hofstrand-Ag Ventures Alliance

“Don’t invest if you can’t afford to lose it.” Frayne Olson-Quentin Burdick Center for Cooperatives

DIRECTOR’S REPORT (cont)

This means that the directors must “know the industry and the business”, not just act as a rubber stamp to management proposals. They need independent access to information, they need to question, and need to effectively evaluate answers. In short, they need to be educated business-persons who devote sufficient time to the cooperative to be effective directors.

QBCC and other centers (in California, Wisconsin, Kansas, New York) and organizations (NCFC, NCBA and many state associations) provide conferences and training programs for cooperative directors and management. One place for cooperatives to start is with director performance evaluation. Last summer, in a training program in Michigan, we outlined a process for director self evaluation which consisted of the board jointly (1) writing a job description for a director, (2) describing the required and preferred qualifications of a director, and (3) defining the performance expectations of a director. The last step in the process is for each director to compare their qualifications and performance to the standards developed within their own cooperative. I believe most directors want to be good at their job and will try to improve their performance to meet the expectations of their peers.

The world is moving so fast these days that the man
who says it can’t be done is generally interrupted
by someone doing it.

Dr. Harry Emerson Fosdick 1878-1969, minister

NDSU Cooperative Internships

Internships are a win-win situation. There are many benefits for both the employer and the student. The employers benefit by introducing future employees to the strengths of the company and have the opportunity to work with the student. Internships give the students a chance to use what they have learned in the classroom, and gain hands on experience in a work environment. Benefits to employers include:

- Making an investment in your future labor force. Many students are hired full time by the companies they had internships with after graduation.
- Students can work on short term, or specialized projects, thus freeing current staff for other responsibilities.
- Interns give employers a link to the current curricula and research advances in the industry.
- Increase a company's visibility by exposing students to a company's organization, products, and services.

If your cooperative is interested in offering an internship to a student:

- Contact the departmental field experience advisor
- Develop a job description that details what the student will be doing in your origination
- Determine the salary that will be offered
- Since the market for students is highly competitive:
 - o Make sure the salary you are considering is competitive
 - o Increase your company's visibility on campus through informational meetings and attend recruiting events sponsored by the college.
 - o Some employers offer same or similar benefits to interns as full-time employees.
 - o Some employers assist students in finding housing or furnish housing for remote assignments.
 - o Some employers pay the cost that is incurred by the student for the internship credits.

If you need further help in designing an internship please contact Bill Nelson at QBCC-bill.nelson@ndsu.nodak.edu.

Please contact the following people when you are ready to offer an internship to a student.

- Cheryl DeVuyst, Agribusiness and Applied Economics Agribusiness Field Experience Advisor. 701-231-8000 or cdevuyst@ndsuext.nodak.edu
- David Lambert, Agribusiness and Applied Economics Agribusiness Department Chair. 701-231-7444. david/lambert@ndsu.nodak.edu.

The manager administers; the leader innovates. The manager has a short-range view; the leader has a long-range perspective. The manager asks how and when; the leader asks what and why. The manager has his eye on the bottom line; the leader has his eye on the horizon. The manager accepts the status quo; the leader challenges it.

Warren Benn

Child Care Cooperatives

A national concern for parents of preschool children is the cost and quality of child care. In North Dakota the cost can range anywhere from \$375 to \$650 per month per child, depending on facility, age of child, etc. One parent whose child is currently in child care in Fargo said her cost had increased 22 percent this fall.

Last summer QBCC was contacted by the City of Fargo to help in a child care feasibility study for the Sudanese Christian Fellowship. At an informative meeting the representatives felt the cooperative structure was closest to the type of business structure they were looking for. Their goals included high quality care, low cost care, ability to participate in the decision making and operation of the child care center and to be actively involved in the every day activities of the center.



The study included start up budgets and operating budgets for three facility options, with three different enrollment scenarios each. Without parents volunteering to work at the center, all scenarios could not break even. With parents volunteering in salaried positions as part of their membership in the cooperative, several scenarios broke even and some resulted in a net surplus.

There are many different cooperative models of Child Care. *Parent Child Care Cooperatives* are the most common form. The cooperative is governed by the parents through a parent-elected board of directors. They make policy decisions and hire a director. The director oversees the actual operation and answers to the board. *Child Care Consortium* is formed by employers, non profit organizations, public agencies, etc, so they can share the costs, risks and benefits of a child care program for the employees. The governing board oversees the operation of the program and is made up of the members. *Child Care Worker Cooperative* is owned by the director, teachers, and sometimes classroom aides. They combine their capital, skills and time to gain steady employment, and income. *Family Home Child Care Provider Cooperative* is made up of family home child care providers that come together to use the cooperative concept for marketing (improve purchasing power through bulk buying) for ongoing education, exchange of ideas and for providing business support services such as back-up care when a provider is ill. A *Babysitting Cooperative* consists of parent/members who exchange babysitting services with one another. Instead of paying for the services, a point system or coupons tracks the parent's use and provision of services. (Coontz and Esper - University of California-Davis)

If good quality child care at affordable cost is a concern of yours, perhaps starting a child care cooperative could be an answer for you. For more information contact Margaret Lougheed at 701-231-6370 or email her at margaret.lougheed@ndsu.nodak.edu.

QBCC wants to work with your cooperative...

This past year a cooperative contacted QBCC to request a special training session to look at the roles and responsibilities of the auditing committee and the board of directors of the cooperative. QBCC held a very successful training session attended by many cooperatives with the same concern. QBCC wants to encourage you to contact us with other ideas and concerns your cooperative has in regards for training sessions we can put together for you. If your cooperative has concerns about an area, it is very possible other cooperatives have similar concerns. Please contact us at ndsu.qbcc@ndsu.nodak.edu.

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 basis.

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

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