

How Cooperatives Create Value for Members

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NECC Future Leaders Conference

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Conference Program

- Speakers Will Address Key Elements of Successful Cooperatives:
 - Creating Value for Members
 - Leadership
 - Strategy
 - Finance
 - Marketing
- Informative and Enjoyable Tour
 - Visit Geneva Experiment Station
 - Vineyards and Dinner at a Winery



Today's Agenda

- Learn More About Attendees
- Discuss the Scale and Scope of Cooperative Enterprise in U.S. and Region
- How Does Your Cooperative Create Value for You?
- Review the Ways that Cooperatives Create Value for Members
- Stimulate Discussion



Review Notebook

- Describes the Northeast Cooperative Council, NECC
- Provides Information on the Conference and Speakers
- Includes Handouts from Speaker Presentations
- Resource Material on Cooperative Enterprise



iClicker Interaction

- Each Participant Gets to Vote Using iClicker remote
- Turn on the power (button on the bottom)
- There will be a time limit to submit your vote
- All votes will be confidential – individual responses not revealed



Group Profile : Location

- A. New York State
- B. New England
- C. Mid-Atlantic
- D. Other States
- E. Other Countries



Group Profile: Major Farm Enterprise

- A. Dairy
- B. Vegetable or Fruit
- C. Livestock or Poultry
- D. Field Crop
- E. Diversified/Other



Group Profile: Years Farm in the Family

- A. Less than 10
- B. 10 – 49
- C. 50 – 99
- D. 100 – 150
- E. Over 150



Group Profile: How Many Cooperatives Do You Belong to?

(Credit, Service, DHI, AI, Marketing, Purchasing, Utility)

A.1

B.2-3

C.4-5

D.Over 5



Group Profile: Digital Technology

- A. Don't Have Computer
- B. Use Computer But Don't Have Internet Access
- C. Use e-mail but limited Internet use
- D. Use e-mail, access Internet, search engines
- E. Use e-mail, access Internet, searches, participate in web-based seminars/events



Group Profile: Online Information

- A. Don't Use Internet
- B. Go Online Rarely
- C. Go Online Frequently (at least once/week)
- D. Rely Heavily on Web-based information for Farm Business Management



What Makes Cooperatives Unique?

- In Many Ways They Are NOT Different:
 - Must compete in an industry
 - Must be well managed and governed
 - Must innovate and achieve economic results
- Primary Differences:
 - Member owned and democratically elected board
 - Earnings distribution based on member volume not investment
 - Limited return on investment:
 - Legal limits set by states and IRS
 - Keeps focus on creating member value vs. investor value



Cooperative Principles

Definition:

- A cooperative is a user-owned and user controlled business that distributes benefits on the basis of use.



User-Ownership

- Users Own and Finance the Business
- A Variety of Equity Plans Can be Utilized
- Return on Equity is Not a Primary Economic Goal



User-Control

- Control Rests with Member-Users
- Control is Exerted by:
 - Voting
 - Voicing Opinions
 - Exit



Users = Primary Beneficiaries

- Benefits Are Distributed Based on Use of the Business
- Fair Distribution is Usually Unequal



Education About Cooperatives

- Unique Form of Business
- Internal Audiences:
 - Members
 - Staff
 - Directors
 - Management
- External Audiences:
 - Advisors
 - General Public
 - Policy Makers



Cooperation Among Cooperatives

- State & Regional Associations of Cooperatives, NECC
- National Association of Farmer Cooperatives, NCFC
- National Cooperative Business Association, NCBA
- National Milk Producers Federation
- International Co-operative Alliance, ICA



Cooperatives in the Food System

- *Owned by:*
- Producers
- Brokers
- Distributors
- Franchise Owners
- Food Manufacturers
- Retailers
- Consumers



Non-Agricultural Cooperatives

- Many Different Uses of Cooperative Business Model
- The “Co-op 100” list
 - www.co-op100.coop
 - 40 Ag. Cooperatives on 2007 list generating over \$78.9 billion in total



Role of Cooperatives in Our Economy

United States



U.S. Cooperative Economic “Footprint”

- Recent Study by Univ. of Wisconsin, Center for Cooperatives
<http://reic.uwcc.wisc.edu>
- Extensive Economic Impact of Cooperatives on a Variety of Sectors:
 - Sales & Marketing
 - Social and Public Service
 - Financial Services
 - Utilities



Economic Impact of U.S. Cooperatives

(excluding Housing Cooperatives)

Sector	Revenue	Income	Employment	Firms
	(\$billions)	(\$billions)	Full time jobs	
Social & Public Services	7.5	2.2	424,505	11,311
Financial Services	394.4	100.6	1,133,353	9,978
Sales & Marketing	201.2	37.7	422,505	3,463
Utilities	<u>49.8</u>	<u>13.4</u>	<u>162,873</u>	<u>4,536</u>
TOTAL	652.9	154.0	2,143,236	29,288



Net Business Volume U.S. Agricultural Cooperatives: 2005 and 2006*

<u>Function</u>	<u>2005</u>	<u>2006</u>
	<i>(billion dollars)</i>	
Marketing	74.2	70.4
Supply	28.4	35.9
Services	<u>3.9</u>	<u>4.1</u>
TOTAL	\$106.5	\$110.5

Source: Farmer Cooperative Statistics, 2006 Service Rpt. 67 Wash. DC: USDA, Rural Development, November, 2007 p.28

*Excludes inter-cooperative business



Role of Cooperatives in Our Economy

Northeast



Northeast Ag., Marketing, Supply and Service Cooperatives in 2006

<u>State</u>	<u>Number</u>	<u>Memberships</u>	<u>Volume</u>
			(\$ million)
CT	4	500	\$239
MA	10	5,000	559
ME	23	5,400	204
NJ	13	1,500	256
NY	72	8,600	2,452
VT	3	800	445
PA	45	4,400	1,006
MD	11	2,900	509
DE	3	5,800	102
NE	<u>184</u>	<u>34,900</u>	<u>\$5,772</u>



New England and New York Ag. Credit Association

Members, Loans, and Net Income, 2005

(4 ACA State Headquarters*)

<u>State</u>	<u>Members</u>	<u>Loans</u> <i>(million</i>	<u>Net Income</u> <i>dollars)</i>
CT*	900	238	5.3
MA	950	309	6.9
ME*	1,000	306	4.1
NH	140	50	1.1
NJ	1,400	404	9.1
NY*	7,727	1,836	41.0
RI	220	55	na
VT*	<u>913</u>	<u>192</u>	<u>4.4</u>
Total	13,250	3,391	71.9



NECC MEMBERS ON THE "TOP 100" LIST

www.ncb.coop/publications

Rank	Cooperative	2007 Total Revenue (million \$)
2	Dairy Farmers of America	11,115
12	CoBANK, ACB	3,085
32	Ocean Spray Cooperative	1,332
45	Dairylea Cooperative	1,006
58	Agri-Mark	836
72	National Grape Cooperative	654



Challenges in Measuring Value Created

- Value Created for Multiple Entities
 - Cooperative
 - Member
 - Other Stakeholders
- Performance is Tougher to Measure Than in a Publically Traded Company
 - Profit metrics, stock value, outside analysts, etc.



How Does Your Cooperative Create Value?



Value to Owner/Investor

- Financial Metrics: ROA, ROE, Stock Dividends, Equity Revolvment
- A Focus on Creating Value for Member-Owners Beyond Financial Metrics
- Investment in an “Extension of Your Business”
- Maintain a Focus on Enhancing Member Business Performance



Value of Owner Control

- Transparency & Access to Information
 - Annual reports and regular communication
- Direct Linkage to Board of Directors
 - Elected from membership
 - Located in member areas
- Can Achieve Higher Level of Trust than Some Current Publically-Held Firms



Value to Users

- Business Activities Revolve Around Member Priorities:
 - Services and products of value to members
 - Marketing activities focused on member output
- Marketing Economies
 - Acquiring Market Intelligence
 - Research and Development, Branding
 - Managing Market Risks



Value of Information & Shared Knowledge

- Real Time Data Collection and Analysis
- Farm Management Benchmarks
- Collective Genetic Resource Advancement
- Spread Out Costs of Data Collection and Analysis
- Ability to Gain Clear Assessment of Member Needs and Priorities



“Strategic” Value

- Credit Service – increase understanding of credit or market risks to all members
- Utility Service – focus on limited power outage as a priority vs. cost to investors
- Existence of Cooperative – presence in a market, stimulate competition
- Capacity to Form Larger Scale Alliances-
“Cooperative Working Together”, JV,
Political Action



SUMMARY

- **Cooperatives Play an Important Role in the Northeast, U.S. and Global Ag. and Food Industry**
- **There Are Unique Aspects Common to All Cooperative Enterprises**
- **Cooperatives Create Member Value in a Variety of Ways**
- **But At the End of the Day, Cooperatives Must Be Able to Compete in Today's Market**



How Cooperatives Create Value for Members

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