

# THE KENTUCKY COOPERATOR

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KENTUCKY CENTER FOR COOPERATIVE DEVELOPMENT

## Cooperative Development in Kentucky - Part I

"The Kentucky Center for Cooperative Development will provide leadership, education and technical resources and capitalization strategies for groups and organizations seeking to enhance opportunities through cooperative principles." This is the mission statement for KCCD. This is what we are in business to do.

For those of you that have a personal mission statement, or work for a company that has one, you know that just having a mission statement is not enough. You must actually incorporate the mission statement in your day to day activities and decisions for it to truly be effective. While many of you have likely seen KCCD's mission statement, we would like to take this opportunity to go into a little more detail about the actions behind the mission statement. This article will begin that discussion. Over the next few issues of *The Kentucky Cooperator* we hope to share with you, our clientele and supporters, our philosophy of cooperative development in Kentucky.

KCCD distinguishes among three areas of cooperative development activities: development, maintenance

and education. Over the next few newsletters, these categories will be discussed in more detail. This approach is designed to facilitate the development and growth of sustainable businesses. Whether that business is formally organized as a cooperative or an LLC operating under cooperative principles, it is the self-supported, sustainable business that KCCD works to achieve.

KCCD works to achieve successful cooperative businesses that possess the following characteristics: provide economic benefits and services to members in their communities; have experienced managers and boards of directors that work cooperatively together; require member investment and commitment; use business planning tools to implement sound business decisions; are adequately capitalized; and promote uniform fiscal responsibilities. In the early development phase, KCCD staff spend many hours with new groups to guide them in building a sturdy foundation upon which their business, with these characteristics, will be built.

Not every group that KCCD meets with will form a cooperative. Some may not organize into any type of business. There is no quota of new businesses that KCCD seeks to organize. If we spend several hours working with a group and they decide not to formally organize, then that series of meetings is still a success. Preventing businesses that would not succeed and saving the investors often thousands of dollars in equity capital is a successful decision.

Unfortunately, some groups believe that all they need is a good idea and a little seed money and success is just around the corner. While without the ideas and financing, it would be difficult for a business to get off the ground. Failing to do the proper homework (feasibility studies, business plans etc.) success would be much more difficult to achieve. KCCD's development mission begins with the process of making sure that these potential businesses build a solid foundation from which to build a sturdy house. The absence of a solid foundation can make even the best planned house fall.

*It is easy to sit up and take notice. What is difficult is getting up and taking action.*

### Our Newsletter

Look for The Kentucky Cooperator quarterly in your mailbox. We hope you find the newsletter to be informative. We invite all suggestions towards its format and/or material. If you have suggestions or need to be added to our mailing list, please call us at (270) 763-8258.



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## From the Executive Director

### When is a Cooperative Business a Failure?

When is a cooperative business a failure? Is it only a failure when it closes its doors and ceases to exist? Even then is it a failure?

A cooperative is usually formed by a group of individuals in a local area to fill a need that isn't being met by other businesses operating in the area. The cooperative group recognizes the need and by their own initiative, does something about it. The need is usually economic in nature but it can be for a service that is not currently available.

Many cooperatives organize to meet a specific need and operate quite successfully for a number of years. Members benefit financially from the services the cooperative provides and the average cooperative member is very supportive of the business. In turn, the cooperative is very attentive to the members' needs and continuously works to improve the services provided.

However, as new services and marketing opportunities become available as the result of a competitive business environment, cooperative members have more choices for market or service providers. In some instances, the local cooperative can no longer compete because of its small size, available capital, etc. In other instances, there is simply no longer a need for the marketing or service functions of the cooperative because members have out-grown the need for those services.

Many cooperatives are changing and adapting to compete in the competitive marketplace. They may add new services, streamline existing ones or completely change the services they provide to better serve their members. Some are merging with other cooperatives or taking on joint ventures with other business partners. Others, however, after a thorough analysis of the business may decide to cease business operations and close their doors.

For cooperatives that close their doors, does this mean that the business was a failure? I do not think so. These cooperatives may have provided markets or services for years for its members when they were not available elsewhere. Members could have benefited financially and prospered during those years. The cooperative may have fostered and nurtured a fledgling agriculture commodity into a very marketable product. A product was developed, promoted and positioned in the marketplace to provide good financial returns to members. Over time the product was identified with the local area and new marketing opportunities became available to members. Some area producers of the commodity grew large enough to support their own marketing programs for the product.

A combination of circumstances may result in the services of the cooperative no longer being needed by the members. At this point, the cooperative has completed its work and has done so very successfully. The industry itself has grown to where it will continue on its own.

*Larry K. Snell*

## Analyzing and Managing Cooperative Infrastructure



Many groups we work with are interested in infrastructure and often use the term without really considering what it involves. Typically agricultural groups are excited about facilities infrastructure. We very often hear phrases like 'We need a building and some equipment', or 'We need to expand our facilities and improve our infrastructure'. So let's try to get down and dirty with the term infrastructure and how to determine what infrastructure is needed.

Infrastructure is one of many keys to developing a cooperative business organization. The Merriam-Webster dictionary defines it as "an underlying base or foundation especially for an organization or system." So in terms of cooperative businesses, infrastructure consists of the **components** that make an organization work. We further define a cooperative's infrastructure into subcategories such as financial infrastructure (management control systems), marketing infrastructure (distribution and transportation), facilities infrastructure (buildings and equipment), supply infrastructure (source of products), etc. Even these subcategories can be broken into more specific items of infrastructure.

What infrastructure does not account for in any business is management. Management is the means to

implement infrastructure to its best economic use. There is financial management, marketing management, operations management, supply management, and so on and so on. So in a basic cooperative, there are two components needed to make the business viable: infrastructure and management. Infrastructure without proper management is fatal to any cooperative business organization.

Every new and existing cooperative business must do the proper homework to insure that every "infrastructure" need and want is economically justified. While every business needs to have 'basic infrastructure' to function, how does a cooperative determine if a larger building or better equipment is needed? The feasibility study is the basic tool to determine infrastructure needs and to align the infrastructure with management. The business plan further defines the effective and efficient use of the infrastructure in the day-to-day cooperative operations. All businesses need to properly analyze their infrastructure needs before beginning operations and again before any expansion activities.

Infrastructure is vital and important in a cooperative business, but it is only one ingredient that must fall into place for a viable cooperative business. Analyze the infrastructure need, and then properly manage the infrastructure and the cooperative business will be on the right track.

## News from Internship Land



What a fantastic experience my job has been! Hello again everyone. While I am sorry to see the summer drawing to a close, I am very grateful for everything I have been involved in during these last few months.

Working with the Lexington Farmer's Market has given me the chance to see how a cooperative benefits and interacts directly with an urban community. Spending time with the Appalachian Sweet Sorghum Marketing Association and the Purchase Area Aquaculture Cooperative has helped me to understand development and operational processes within the cooperative business structure. Visiting with Cumberland Farm Products and Green River Produce Marketing Cooperative has broadened my knowledge of fruit and vegetable markets and processing.

I have also been responsible for a market survey of the nursery industry for our seven state region. We are hoping to reach some helpful conclusions about the

changing demand for specific products used by landscapers, wholesales and retailers. Another goal is to gauge which areas are using Kentucky grown trees in their operations. From the results, we also hope to rank the importance of market channel forces, such as price, delivery, and communication. I am very excited about the information obtained from this project and how it might provide some insight into this industry's direction. While survey work can be tedious, I have a new respect for market research and the valid information it can convey to key players within an industry.

Overall, while working with KCCD and UK, I have developed very specific skills such as analyzing costs and developing marketing plans. The big picture that I have become very aware of is that Kentucky agriculture holds potential for many new ventures. However, despite the opportunities present, more important to the success of our agribusinesses are proper planning and strong, capable support systems. This internship has

News from Internship Land (continued)

welcomed me to the real world.

One last year of school and I'll get to return!!

Here's to a great fall season!

Andrea Basham

KCCD/UK Intern at Large

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"Cooperative Development for the Commonwealth and Beyond"

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