

THE KENTUCKY COOPERATOR

Volume 2, Issue 1

January-March 2004

KENTUCKY CENTER FOR COOPERATIVE DEVELOPMENT

COOPERATIVE GROWER EDUCATION PROGRAM

Nor rain, not snow, nor ICE could keep some in Western Kentucky away from learning how to be better cooperative growers. On February 6, the Green River Area Cooperative Extension Agents and Associates hosted an education program for local cooperative members. Over 10 growers were in attendance. The meeting included a pepper production roundtable discussion by the top growers, a session on insecticide effectiveness and use by University of Kentucky Extension Entomologist Ric Bessin, and a session on management skills by Steve Isaacs, University of Kentucky Agricultural Economist. The following is a summary from the management skills session conducted by Dr. Isaacs.

A significant paradigm shift in agriculture is understanding the distinction between products and commodities. A commodity is something that lots of farmers produce and sell in a common market. Examples are #2 yellow corn, a 500# feeder calf, a cwt of grade A fluid milk. These "commodities" fit a uniform and consistent description and are priced in the "commodity" market. Sellers have virtually no control over the market price.

A product, on the other hand, is a good or service that can be differentiated from a commodity with a set of qualities or traits or brand name that sets it apart from other similar goods. Examples may include specialty grains, branded beef, organic produce, or value-added or processed goods.

From a management perspective the paradigm shift occurs when the grower realizes that production and marketing of a "product" is considerably different than for a "commodity."

On the production side, we've generally known that all our "commodity" will sell at some price. Even if the quality is low or yield is reduced, we'll be able to sell all we produce. Growers of "products" have sometimes discovered that their "product" may not sell at any price if the quality is low or if the market is saturated with similar goods.

On the marketing side, we've tended to "sell" commodities; we have to "market" products. Successful growers of "products" are often very skilled at market development. Growers of "commodities" are often frustrated with the amount of time and

effort required to "market" a "product."

One way growers sometimes attempt to overcome "marketing" deficiencies is to band with other growers in cooperative marketing of their "products." This attempt to share the risk across a group of growers can often be very successful, but is not without its tradeoffs. It will cost something to sell in a coop. Part of the sales price will go to pay coop personnel, operating costs, and overhead. Coop marketing will lower some of the price risk, but will not remove it entirely. A "product" by definition will have a good deal of price volatility. And, quality considerations will often determine whether a product will even be offered for sale. Dumping a load of vegetables in the compost pile is more of a paradigm shift than many "commodity" growers can bear

Growing and marketing "products" offer some advantages to improve profitability over traditional "commodities", but also require a paradigm shift. Risk and returns are related for a good reason. Low risk commodities offer safe but generally low returns. High risk "products" can offer higher returns but the riskiness can also lead to lower returns.

Pleasure in the job puts perfection in the work

-Aristotle

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

I would like to take this opportunity to welcome our newly elected Commissioner of Agriculture, Richie Farmer and staff. I encourage everyone to get to know the Kentucky Department of Agriculture staff and communicate with them on a regular basis. Patrick Jennings is Deputy Commissioner and Chief of Staff; Craig Maffet is General Counsel; Lorie Beavin is Executive Director of Office of Strategic Planning and Administration; Dr. Robert Stout is State Veterinarian; Devon Hawkins is Executive Director of Office of Consumer and Environmental Protection; and in the Office of Agriculture Marketing and Product Promotion, Brian Furnish is Executive Director and Roger Bingham is Deputy Executive Director. We look forward to working with the KDA staff to develop and implement programs to move Kentucky agriculture into the future. We also look forward to working with Mr. Keith Rogers, the new Executive Director of the Governor's Office of Agriculture Policy. With a solid understanding of agriculture from his farm background, Keith is already doing good work in his leadership role with the Kentucky Agriculture Development Board.

KCCD's work to provide technical assistance to Kentucky Cooperatives is assured through 2005 with the recent funding received from USDA Rural Development and the Kentucky Agriculture Development Board. USDA awarded \$314,575 to KCCD in September 2003. KADB awarded KCCD \$177,750 in October of 2003 to support its work in 2004. In December of 2003, KADB approved \$271,985 in funding for KCCD to continue its work through 2005. The December funding included monies to continue the activities and work of the Kentucky Produce and Aquaculture Alliance.

Kentucky Cooperatives face many challenges in 2004 but they will continue to receive support from the KCCD and its partnering agencies. Please let us know how we can help you meet the challenges that your cooperative faces this year and together we can work to overcome them.

USDA Value Added Development Grants: Kentucky Recipients

Kentucky submitted 22 applications to the USDA Value Added Producer Grant program in 2003. Kentucky received ten VAPG awards for a total of \$574,630 federal funds coming to Kentucky for agricultural diversification purposes. In 2002, Kentucky received four VAPG awards for a total of \$597,592. Several awards were leveraged with state Phase 1 tobacco funds at a 50% cash match.

KCCD Worked in different capacities with 5 of the 10 award recipients. We are very excited about the opportunities this brings to Kentucky agriculture. The funded projects are listed on the USDA website at www.rurdev.usda.gov/hmarchive/archive.html. Just click on recipient list under the December 11, 2003 announcement archive. The funded projects KCCD assisted with include: Kentucky Specialty Grains, LLC; South-East Bison Association; Kentucky Shiitake Mushroom Growers Association; Kentucky Produce and Aquaculture Alliance; and the Purchase Area Aquaculture Cooperative, Inc. Congratulations to all the groups for a job well done in a very competitive applicant pool.

KCCD Business Planning Assistance



A business plan is a written communication tool, detailing important information to stakeholders involved with the business. The plan communicates details and organization of the operations to the managers and staff. The plan communicates expectations to employees. The plan communicates intentions and direction to buyers, suppliers, bankers, grantors, accountants and others. The business plan gives direction and focus to a business.

KCCD recognized a need in the Kentucky cooperatives to improve, and in some cases develop, business plans. Some cooperative's business plans were outdated some were completed by third parties without management participation, and some cooperatives had no business plan. KCCD has worked with these groups in a systematic process to develop and/or update their business plans.

The business plan should consist primarily of four

base components: a business description; a marketing plan; a management plan; and financial management plan. While these four components are critical, more is needed. Cooperatives must expand upon these four topic areas in great detail. These four headings can easily create several pages of great written communication.

The key to developing a useful, relevant business plan is to involve managers, board of directors, and key staff. KCCD works with these key leaders within a cooperative to develop a realistic, detailed business plan outline. KCCD then recommends the cooperative's leaders finish the writing and development of the plan to create ownership and understanding of their business operations. A successful business plan exercise must have full management participation.

For more information on cooperative business plan assistance please call the KCCD office

"Do the right thing. It will gratify some people and astonish the rest."

--Mark Twain

KCCD Hosts 4th Annual Cooperative Winter School

The Kentucky Center for Cooperative Development hosted their 4th annual Cooperative Winter School February 26 and 27th. The theme of this year's School was "Planning for



2004 Winter School participants anticipate dinner speaker Roy Palk, CEO of East Kentucky Power.

Cooperative Success" and was held at Barren River State Park. A "Cooperatives 101" session was included as a pre-conference workshop. The diversified audience ranged from existing agricultural cooperatives to

associations, to groups in the process of deciding on a business structure.

The two primary topics of this year's School were communication and responsibilities. Pre-registered participants were asked to complete a personal assessment survey prior to the Winter School. Individual survey results were distributed at the beginning of the conference. The results were also used to group participants for interactive exercises demonstrating how different individuals can work together to make effective and efficient business decisions.

The remainder of the conference focused on the roles and responsibilities of Cooperative Boards of Directors and Managers. Separately, each group discussed what the roles of the directors are and what the roles of the manager are. After these two discussions, their lists

were compared to discover any differences. Fortunately, both the managers and the directors had similar opinions on the roles of each group. Later in the conference, the directors and managers separated again and specifically addressed their responsibilities regarding the financial management of the cooperative.



Winter School participants wait for instructions during the "Get Acquainted" session.

KCCD Hosts 4th Annual Cooperative Winter School

(Continued from page 3)

A total of 48 participants and speakers were in attendance. KCCD would especially like to thank the following speakers for their time and efforts to help further the success of the Cooperative Winter School: Jimmy Henning, Steve Isaacs, Lionel

Williamson, Tim Woods, University of Kentucky; Jim LeCureux, 21st Century Producers; Rich Laing, L5 Simplified Business Solutions; Roy Palk, East Kentucky Power, Corp; Mickey Miller, Nolin RECC; Keith Rogers, Governor's Office of

Agriculture Policy; Brian Furnish, Kentucky Department of Agriculture; Mark Haney, Sam Moore, Kentucky Farm Bureau; and Jeff Jones, USDA Rural Development.

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The Kentucky Center for Cooperative Development

"Cooperative Development for the Commonwealth and Beyond"

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