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KENTUCKY CENTER FOR COOPERATIVE DEVELOPMENT

COOPERATIVE DEVELOPMENT IN KENTUCKY - PART III KCCD Cooperative Maintenance Programs

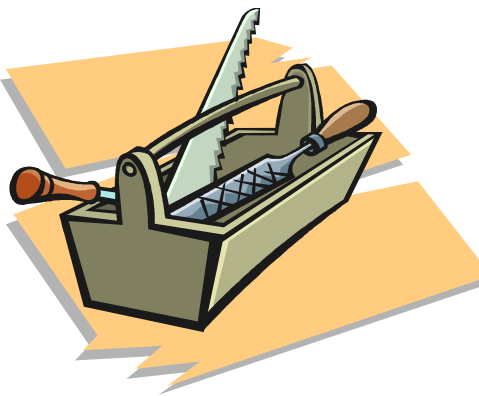
KCCD's operations plan is divided into three programmatic areas: cooperative development, cooperative maintenance, and cooperative education. Part 1 of this series introduced KCCD's cooperative development philosophy, and part 2 discussed the cooperative development programs that KCCD conducts. Part 3 continues the series by outlining cooperative maintenance programs and activities KCCD uses to carry out the Center's philosophy, mission and objectives.

A majority of KCCD resources are spent within the area of cooperative maintenance. Some of the issues that KCCD (and other cooperative development centers) have identified as challenges in cooperative development include the following:

- ◆ Leadership and decision making (for the cooperative) from the Board of Directors,
- ◆ Ability in acquiring adequate financing,
- ◆ Maintaining the market's desired quality (and quantity) of products,
- ◆ Retaining qualified management,
- ◆ Maintaining member loyalty,

- ◆ Legal issues, and
- ◆ Identifying and implementing proper accounting and record keeping systems.

The cooperative is in business to benefit its members (the growers). One of the biggest challenges that cooperatives face is the ability of their board of directors to make decisions that are in the best



interest of the cooperative. Cooperative decision making is difficult when the decisions a cooperative board member must make may not benefit their personal business in the short run but will benefit them in the long run. This often happens because the short run is much easier to see and believe in than the long run. But what members should keep in mind is that if the cooperative is successful, then the

growers will be successful. KCCD works diligently to help growers realize that while the short run is important, the objective we should all work to achieve is a successful, self-sufficient business for the long run.

KCCD offers several services for their clientele to improve the ongoing business. When requested, we conduct a Business Management Operations Analysis (BMOA) which is a week-long, in-depth business health program. On years where the business does not request a BMOA, we offer an Annual Management Assistance Program (A-MAP) where we spend one day assessing the business in general. We host a Manager's Retreat to let cooperative managers discuss their role in the business and seek input from other managers. We also work with businesses to help them put together an annual business plan.

Cooperative maintenance programs are an ongoing activity at KCCD. Whether it be through a cost-analysis study, a retreat for cooperative employees, or attending monthly board meetings, KCCD believes that by helping the cooperatives work smarter (not just harder) we can begin to realize more successful cooperative businesses in Kentucky.

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

It is very important that the Board of Directors and the manager of the cooperative know the costs associated with operating the business to benefit members. They must understand those expenses to effectively manage the cooperative. Without this knowledge, management will make "flawed" business decisions that will ultimately have a negative impact on members. For example, if you do not know what it costs you to prepare the product for market, how do you know if you should sell it at the current market price? When these "flawed" decisions are made, members do not receive the benefits from belonging to the cooperative that they expected and may no longer patronize the business. Strong membership support is vital to the success of any cooperative.

Often the Board of Directors and manager can fall into the trap of becoming so involved in the production, processing and marketing activities of the business that they fail to devote adequate time to analyzing the costs associated with performing those activities. The fixed costs of operating the cooperative are relatively easy to determine as they do not change within the production season. The variable costs of doing business, however are tedious and time consuming to determine. Variable costs (hired labor, chemicals, boxes, etc.) change with each day and with each lot of product that comes through the co-op's doors. Determining variable costs is not a one time process. Rather, properly measuring and monitoring variable costs is a day to day activity. We must all remember the basic economic principle: if you cannot cover your variable costs, you're better off not producing. Again, we have to know what (and how much) those variable costs are before we can make this important economic decision.

Sound financial decisions can only be made if the board of directors and the manager have a firm grasp on the fixed and variable expenses of providing a particular service to members. Without this knowledge they are prone to charge too much for the service and lose membership support or too little and bankrupt the cooperative. It is imperative that the management devote time to determine the accurate costs of doing business.

Larry K. Snell, Executive Director

**"PLANNING WITHOUT ACTION IS FUTILE -
ACTION WITHOUT PLANNING IS FATAL"
- UNKNOWN**

Farmers' Markets



KCCD is expanding its reach into new cooperative areas outside of agricultural marketing cooperatives. Since 2003, KCCD has received requests for assisting farmers' markets. In the fall of 2004, KCCD assisted the Bourbon County Farmers'

Market in conducting a general assessment of their indoor operation in Paris, Kentucky. While conducting this assessment, KCCD staff learned many basic principles about indoor farmers' markets.

1. Commitment - The Board of Directors and members must have a high commitment level for success. The organization must be a high priority for many farmers. In other words, the farmers must be interested in making an indoor market a top priority in their overall farm marketing efforts. The overhead and other associated expenses that come with operating an indoor market do not allow for casual vendors and farmers' to treat the market as a convenient marketing alternative if all else fails.
2. Marketing - Marketing is such a broad term that even for this short article we need to break it down into some components. Therefore, we will focus primarily on supply chain management, product positioning and product pricing as key components to marketing. Supply chain management deals with sourcing product quantity, consistency, quality and variety. When farmers' markets enclose themselves they open up a new competition in the market place - chain stores,

groceries, etc. Therefore, indoor farmers' markets must organize their suppliers (farmers) to supply enough quantity to keep the facility fully stocked, provide a consistent source of products throughout the year, a great quality product (cosmetically pleasing), and product variety to compete with local retailers. Indoor markets must maintain a certain amount of farmer presence (product positioning) in the market to differentiate the best they can against other retailers. Pricing must be in line with the competition.

3. Building and Location - Overhead costs increase dramatically when considering moving indoors. There is a saying "to get retail prices, you must pay retail costs." This is true in an indoor market. Indoor markets can cost the farmer between 30%-50% of sales when the market goes indoors (depending on several variable factors). Additionally, location becomes very important for an indoor market. Indoor markets should be located close to other retail establishments.

In many instances developing farmers' markets is not as easy as having several farmers' gather at the local courthouse on Saturday morning. Many details must be answered regarding state laws, health codes, insurance needs, etc. to properly set up a farmers' market operation. KCCD can help with feasibility studies, business planning, investigating a business structure, bookkeeping and accounting needs, and policy governance. The Kentucky Department of Agriculture assists with farmers' markets as well with numerous programs. Also contact local health inspectors and county government for assistance.

News from the Intern!

Hello again everyone! As the winter draws to a close, graduation inevitably grows closer, and my time working with cooperative ventures with KCCD is almost over. However, there is always time enough to pack in a few more projects. This spring I have finished working with the University of Kentucky and the Nursery Products Buyer's Survey. Through the survey, we hoped to identify industry trends to benefit growers. Some specific highlights from the study are:

1. There is a reported increase in quantity demanded of larger sizes of cultivar. Buyers want more 1.5-3" B&B plants versus .5-1.5" sizes. Buyers also report an increase in quantity demanded of 15-25

gallon container plants versus 10-15 gallon sizes.

2. Retailers and landscapers anticipate decreasing to stable demand for sweetgum, honey locust, ash, and flowering pear. They also report stable to increasing demand for maple trees.
3. Product quality is the most important characteristic in nursery stock purchases. Price was least important to buyers.

The full report of this study will soon be available. It will be published through the Cooperative Extension Service.

News from the Intern! (continued)

The other project which I was involved in during the cold, snowy months was a pre-feasibility study for the Paris-Bourbon County Farmers' Market. Our focus was to better understand the products offered and customers served by this group. Factors of competition were also examined.

Well, that's it for me this time around. Have a great spring season, everybody!!!

A Spring Grow!

*If there comes a little thaw,
Still the air is chill and raw,
Here and there a patch of snow,
dirtier than the ground below,
dribbles down a marshy flood;
Ankle-deep you stick in mud in the meadows while
you sing, "This is Spring."*

- Christopher Pearce Cranch

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The Kentucky Center for Cooperative Development
 "Cooperative Development for the Commonwealth and Beyond"

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