

THE KENTUCKY COOPERATOR

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KENTUCKY CENTER FOR COOPERATIVE DEVELOPMENT

The Cooperative Principles: Principle #4 (part four of seven part series)

In previous articles we discussed voluntary and open membership, democratic member control and members' economic participation. The first three principles really define the community, roles in governance and economic benefits for cooperative members. The fourth principle is autonomy and independence. The fourth cooperative principle reads as follows:

"Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy."

This principle can be difficult to adhere to for several reasons. While many cooperative organizations strive to remain independent, capitalization and financial pressures may arise that

change the cooperative's direction. This is evident particularly when cooperatives take advantage of the many state and federal programs that are in place to financially support cooperative development. When a cooperative begins following a grant fund path, the cooperative risks losing their autonomous nature; the cooperative relies less on self-help, and more on "free money" to support their operations.

This principle proposes a difficult challenge for cooperatives. Members should realize their autonomy and independence is really a long-term organizational strength that they cannot afford to lose. Cooperatives must maintain autonomy and independence to operate in a democratic manner with the members' gaining the benefits from their economic participation and control. Without this principle remaining a primary focus in business operations, management and proper decision making will be sacrificed.

USDA Accepting Value-Added Producer Grant Applications

The Rural Business-Cooperative Service (RBS) announces the availability of approximately \$19.475 million in competitive grant funds for fiscal year (FY) 2006 to help independent agricultural producers enter into value-added activities. Of this amount, \$1.5 million is set aside for applicants requesting \$25,000 or less. Awards may be made for planning activities or for working capital expenses, but not for both. The maximum grant amount for a planning grant is \$100,000 and the maximum grant amount for a working capital grant is \$300,000.

Eligible applicants must fit the following USDA definition: "applicants must be an independent producer, agriculture producer group, farmer or rancher cooperative, or majority controlled producer-based business venture...". The deadline for application is March 31, 2006. Late applications are not eligible for FY 2006 grant funding.

For more information and application criteria, please visit the program Web site at www.rurdev.usda.gov/rbs/coops/vadg.htm. You can also contact Dean Tandy with the Lexington USDA Rural Development office at (859) 224-7435 for further information.

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.

From the Executive Director



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Recently the Board of Directors of two vegetable marketing cooperatives voted to cease business operations. Last November, Green River Produce Marketing Cooperative made this decision followed in December by West Kentucky Growers Cooperative. Neither of the two cooperatives have made the decision to legally dissolve and liquidate. The board of Directors of Green River and West Kentucky are in the process of weighing their options, if any, to keep the businesses going before making any final decision to dissolve and liquidate. The Board of Directors and Management at these two cooperatives will readily admit that they made mistakes in the start-up and during the few short years of operations. They also will tell you a long list of things that they were not able to overcome like starting the business with a group of farmers that were relatively inexperienced in commercial vegetable production, entering a highly competitive produce industry and attempting to gain a share of the better markets, inability to have a consistent supply of quality vegetable due to volatile and erratic weather conditions over the past growing seasons, high marketing costs relative to the industry standards, high overhead cost for facilities and equipment and difficulty of finding experienced managers that could educate them to the realities of the produce business and to help them make good business decisions. Would the outcome of these two business ventures have been different if they had not incorporated as cooperatives? I don't think so because LLC's, C Corps, and other business models with board of directors and managers have to make good decisions based on sound business practices to overcome the same obstacles. It is not the business model that is chosen, but the ability to manage and operate the business to overcome these obstacles that determines in the long run if the business can be successful.

Larry K. Snell, Executive Director

KPAA Feasibility Study Completed

Ascendant Partners (former employees of CoBank Business Advisory Services) recently completed a feasibility study on a statewide vegetable marketing system sponsored by Kentucky Produce & Aquaculture Alliance (KPAA). The objective of the study was to develop a sustainable vegetable marketing/production business for Kentucky's growers.

The Market Assessment confirmed that Kentucky is positioned to compete effectively in the produce industry and that significant opportunities exist to materially improve grower returns. In the Business Feasibility phase, the study found that the existing regional cooperative model is not sustainable as it is currently structured because of: 1) underutilized assets, 2) supply driven model, 3) inefficient marketing, 4) poor grower marketing coordination, 5) inconsistent production performance, and 6) inadequate financial

Farm Marketing Conference in February

Agricultural leaders from Indiana, Kentucky and Ohio have partnered to organize the 4th Ohio River Valley Farm Marketing Conference, a valuable and affordable educational conference for growers and agricultural stakeholders. The conference is scheduled for February 21-22 at the Clifty Falls State Park in Madison, Indiana. The conference is geared towards growers that are looking for strategies for marketing their products. The conference registration fee prior to February 6 is only \$40 and \$50 afterwards and includes all conference activities and 3 meals.

The conference will offer a valuable and affordable day and a half of presentations, workshops, and discussions, focused on agricultural marketing. The conference will include general session speakers, breakout sessions, one-on-one roundtable discussions with producers, panel discussions and trade show exhibits.

On Tuesday evening, the conference will start out with a Wine and Cheese Tasting and a Taste of Regional Cuisine, a sampling of local products and a panel of chefs and producers

discussing the elements of a successful buying arrangement.

The featured speaker will be Barry Moltz, author of "You Need to Be a Little Crazy; The Truth About Starting and Growing Your Business."

"The conference will offer a valuable and affordable day and a half of presentations, workshops, and discussions, focused on agricultural marketing."

Feature presentations will include: *Sharpening Your Competitive Edge, Starting out with a Certified Kitchen-Small Scale Processing, Marketing that Regional Flavor, Cooperatives 101, Making Sense of Certification Alphabet Soup, Meeting the Needs of Differing Demographics, Marketing Alliances from Informal to*

Formal, Home Processing Shopping List, New Tools for Old Tasks, and New Ideas in Working Together.

For more information, please contact Laura Powers at KCCD at 270/763-8258 or email at lpowers@kccd.info. Conference information is also posted at <http://ocdc.osu.edu> under "news and events" and then "upcoming events". A brochure with registration information will also be at this website.

KPAA Feasibility Study Completed (continued)

performance and liquidity. The research also identified a centralized and consolidated business operation as the only one that generates adequate returns to both the producers and the business.

In the final phase, Ascendant Partners developed a business and transition plan. The key elements of the plan include: 1) immediately centralize operations and marketing management, 2) invest in grower performance, coordination, and success, 3) eventually transition operations to a centralized facility in order to maximize volume through-put and expanded

grower reach and participation, and 4) explore extended market opportunities. The financial projections in the business plan show that operational efficiency would improve immediately by 25 percent, increase grower returns by 20 to 30 percent, and generate very favorable returns on equity beginning in year 1.

The plan assumes a transition approach designed to rebuild grower and buyer confidence, prove the volume of centralized management, and build up the capital reserves required to fund the

KPAA Feasibility Study Completed (continued)

transition and operate the business on an independently sustainable basis. During the transition period, the core elements of the plan are based primarily on combining facilities and growers associated with Central Kentucky Growers Cooperative and West Kentucky Growers Cooperative primarily because of access to current production.

The main steps in the transition plan are: 1) form a new management company jointly owned by

the growers, management and other investors, 2) hire/partner with an experienced, professional management team, 3) operate existing facilities under centralized management for 3 years, 4) beginning in year 4 transition to a centralized facility along the I-65 corridor.

If you have any questions or want more information, contact Brent Lackey with KPAA at (606) 670-0015.

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

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