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Development of New Generation Cooperatives

Mike Turner

University of Nebraska-Lincoln

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

DEVELOPMENT OF NEW GENERATION COOPERATIVES

* No market.

Market Report	Yr Ago	4 Wks Ago	8/8/97
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb			
Omaha, cwt.	\$62.00	\$63.50	\$65.88
Feeder Steers, Med. Frame, 600-650 lb			
Dodge City, KS, cwt.	*	*	85.30
Carcass Price, Ch. 1-3, 550-700 lb			
Cent. US, Equiv. Index Value, cwt.	92.39	92.78	99.35
Hogs, US 1-2, 220-230 lb			
Omaha, cwt.	62.05	59.15	56.38
Feeder Pigs, US 1-2, 40-45 lb			
Omaha, hd.	*	*	*
Fresh Pork Loins, Wholesale, 14-18 lb			
Cent. US, cwt.	124.00	120.60	124.20
Slaughter Lambs, Ch. & Pr., 115-125 lb			
Sioux Falls, SD, cwt.	96.00	76.25	90.00
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb			
FOB Midwest, cwt.	185.00	160.00	165.00
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W.			
Omaha, bu.	4.85	3.32	3.85
Corn, No. 2, Yellow			
Omaha, bu.	4.56	2.33	2.37
Soybeans, No. 1, Yellow			
Chicago, bu.	7.73	7.89	7.45
Grain Sorghum, No. 2, Yellow			
Kansas City, cwt.	6.68	4.03	4.13
Oats, No. 2, Heavy			
Omaha, bu.	*	*	*
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better			
Platte Valley, ton.	*	*	*
Alfalfa, Lg. Round, Good			
Northeast Nebraska, ton.	77.50	82.50	85.00
Prairie, Sm. Square, Good			
Northeast Nebraska, ton.	65.00	127.50	75.00

Dr. Mike Cook, Professor of Agricultural Economics at the University of Missouri and his students have interviewed over 50 newly created agricultural cooperatives. The purpose of this study was to determine the steps taken to establish a new business. In each case the newly formed business was to establish a value-added opportunity for agricultural producers. The steps taken included the following:

Conception Stage

This is where the idea is conceived. A leader or champion is the single most important consideration for final success. A group of four to five other individuals who share the vision must be identified. They must be good communicators and respected individuals within the community.

Incorporation Stage

This includes reaching agreement on the legal purposes of the organization and associated operating practices. The drafting and approval of articles of incorporation and by-laws, which are filed with appropriate state offices, establishes the legal existence of the business.

Business Feasibility Stage

Business feasibility includes two parts: 1) market feasibility and 2) a business plan. The business plan addresses financial feasibility based on the market assessment. Financial projections including a balance sheet, operating



statement and cash flow analysis is required. The marketing plan includes projected sales including an assessment of the competitive environment.

❑ **Organizational Framing Stage**

Operational details are negotiated and agreed upon. Details include location of facilities, credit policies, pricing practices, financing arrangements, and selection of a general manager.

❑ **Capital Acquisition Stage**

This includes both equity capital and debt capital. Financial projections, marketing plans and solicitation of minimum equity financing are a necessary part of securing debt financing.

❑ **Construction Stage**

The construction stage involves the purchase and/or construction of physical assets to be owned and operated on behalf of cooperative members. Details include building plans, permits, compliance requirements, construction contracts, etc.

❑ **Operational Stage**

Being prepared for the beginning of operations is a big challenge. Many operating systems need to be developed and in place to accommodate daily operations. These are generally the responsibility of a hired manager who is accountable to the board of directors. Ironically, the champion of this business will often choose not to serve on the board of directors. Burn-out or acquired political liabilities often contribute to this decision.

Operational Systems include:

- 1) Personnel
- 2) Accounting
- 3) Inventory
- 4) Pricing
- 5) Marketing/Sales

The seven stages of establishing a new cooperative may not occur in precisely this order. Nevertheless, all of the above stages must be addressed. The relative importance of different stages matters more to some stakeholders than others. For example, lenders will express most concern about the business feasibility stage. Lawyers are most interested in the incorporation

stage. Members worry most about the organizational framing stage. Leaders of the project invest most heavily in the conception stage. Leaders are also the individuals who are committed to seeing the process through to the end.

Mike Turner, (402) 472-1710
Agribusiness Specialist

Oops!! Last weeks article had the wrong title. The correct one is:

“ Factors Affecting the Coordination of Agricultural Production and Marketing”

My apologies to Jeff Royer!