

Perspectives from the Center

By Kimberly Zeuli

As many of you may already know, Bob Cropp stepped down as Director of UWCC on January 3, 2003. At that time I was asked to serve as Acting Director with the intention that at some point in the near future I would become Director. The prospect of taking on more leadership responsibilities at the Center seems more feasible when I consider the tremendous resources within the Center. Perhaps Bob's greatest legacy is a committed, experienced staff who work well as a team.

The Center staff represents a variety of experiences and perspectives. This diversity is necessary to serve both the vast array of cooperatives that already exist as well as those that continue to emerge in new sectors. Although much of the focus of the Center's research, education, and outreach will remain in the agricultural sector, increasingly we are being asked to serve new clients. In our future newsletters, you will get a chance to hear about the staff's experiences firsthand as they share their perspectives in this column.

The Center's promising future is also testament to a long history of distinguished leadership. The International Co-op Training Center was created in 1962 with grant funds from USAID. When the Center decided to change its mission in 1971 to focus more on cooperatives in the US, a new director and a new name were chosen. According to Frank Groves, the Center provided well rounded teaching, training, and research to international and domestic cooperatives. He believes the Center "provides a service to co-ops that they can't provide themselves, especially in the teaching and research areas."

Bob Cropp took over as Director in 1990. Bob maintained the Center's standard of excellence and expanded its activities to include new outreach programs such as the annual Farmer Cooperatives Conference. He also spearheaded efforts to develop new educational materials for boards of directors. In addition, Bob watched over the Center's move into the electronic era and supported the creation of a website and listserv that set new standards in cooperative outreach. Bob believes that a critical part of the Center's mission is to be a provider of information, "We have done a wonderful job so far but we can still strengthen our efforts."

As you will see in this newsletter, the Center is busy working to meet the challenges and standards set by its past leaders. We have developed a new website that targets a new generation of cooperative leaders. Planning for the 2003 Farmer Cooperative Conference is well underway and with the demise of other national co-op programs we hope for increased participation from cooperatives. We are continuing to help organize and speak at value-added agricultural programs in the Midwest and also are venturing further into the health care and housing areas, where new cooperative models are being explored. I am enthusiastic about being able to help lead the Center into new sectors and exploring new cooperative ways of doing business, while also ensuring we maintain our commitment to established agricultural cooperatives. It will certainly be a busy year.

SPRING 2003
VOL 11 #1

Perspectives from the Center	1
A Stalwart "Retires"	2
Co-op Director Leadership Workshops	2
Understanding the Unified Law	3
Highlights: The 2002 Farmer Co-ops Conference	4
Just what IS a Co-op, Anyway?	4
Staff and Internet Directory	6

A PUBLICATION OF
UNIVERSITY OF WISCONSIN
CENTER FOR COOPERATIVES

COOPERATIVE EXTENSION UW-EXTENSION
COLLEGE OF AGRICULTURAL & LIFE SCIENCES
UW-MADISON

Ashwini Rao
editor
Dawn Danz-Hale
designer & co-editor

A Stalwart "Retires"

Bob Cropp makes it official

By Ashwini Rao

Photo by UW-Madison's Life Sciences Communications Dept.



"Bob, your commitment to service to the state and nation raises the bar for those of us who would follow in your footsteps."

*Richard Bishop, Professor & Chair,
Department of Agricultural &
Applied Economics, UW-Madison*

"I have mixed feelings" is how Bob Cropp responds to a question on his recent retirement. "My schedule hasn't changed that much," he explains, "I'm a little more relaxed though."

As director at the UW Center for Cooperatives, Cropp used to be in his office as early as 7:30 a.m. every weekday and occasionally on the weekend. Having officially retired from his positions as Director of the Center and Professor of Agricultural and Applied Economics, Cropp still comes in at the same time and leaves as late as 5:30 p.m. on most days. So what has changed? "I am spending more time with my grandkids and when the weather improves, I plan to do some more gardening."

Cropp joined the Center as Director with a faculty appointment in the Department of Agricultural and Applied Economics in June 1990. He has spent a little over a decade at the Center teaching students, educating directors and managers of cooperatives, and contributing a regular column to *Hoard's Dairyman*, along with a monthly dairy outlook column which appears in *The Cheese Reporter* and several other publications. His calen-

dar, even today, is filled with innumerable speaking engagements squeezed in between the classes he is still teaching and the meetings that he attends.

Under his direction, the Center took on more responsibilities and has come to be recognized for its education and outreach programs. Talking about his decision to accept the position in 1990, Cropp said, "It was not an easy decision." "I was already Dean at the College of Agriculture, UW Platteville. I only left because I felt I could partner with more people since the Center works in conjunction with other centers and experts."

At his retirement celebration on February 21, 2003, Cropp was honored for his dedication and service to cooperatives and the dairy industry. In recognition of his valuable contributions, and among other things, for having mastered the complex issues of dairy policy, he was presented with a plaque from the State of Wisconsin.

UW Extension also honored him for his perseverance and the positive difference that he has made in the industry.



DL workshop participants. Photo by Phil Wells.

Co-op Director Leadership Workshops

By Phil Wells

UWCC kicked off the New Year on January 30 in Green Bay, Wisconsin, with its Director Leadership workshop on Financial Management and an enthusiastic group of 27 co-op directors and managers. Eleven Wisconsin co-ops were represented from the electric, ag-supply, grocery, and dairy industries. Presented by Kim Zeuli, the Center's Acting Director, and Bob Cropp, recently retired Director, the workshop covered how to understand and use financial statements, effective financial monitoring and control, use of industry ratios and benchmarks to evaluate financial performance, and methods for establishing equity capital and redemption programs.

This workshop is one of a series of four programs for newly elected or experienced Co-op Directors and Managers. Other Director Leadership workshops held this spring include:

- Changing Co-op Business Environment
- Board Evaluation
- Board Duties and Responsibilities

Summer DL Workshop June 23-25 Best Western Midway, LaCrosse, Wisconsin

The summer 3-day workshop covers all topics contained in the one-day workshops.

For detailed program and enrollment information, phone 608-262-3981.



Understanding the Unified Law

By Maura Schwartz, Managing Director,
Minnesota Association of Cooperatives

A second cooperative statute is being proposed in Minnesota that would allow outside equity investment in the cooperative in return for limited voting rights, while continuing patron member leadership of the cooperative. Similar legislation is being sought in Wisconsin.

A draft of the proposed cooperative associations act was prepared on WFC/MAC's behalf by cooperative attorneys at Lindquist & Vennum, PLLP. We are also being assisted by attorneys at Dorsey & Whitney, another cooperative law firm. Representatives of a variety of cooperatives were asked to review the draft and provide comments to ensure applicability to all types of cooperatives doing business in Minnesota.

The proposed cooperative act does not prescribe how cooperators should structure their business and cooperative, but rather allows cooperators to innovate and develop their cooperatives according to their unique cooperative business environments. The cooperative tenets of distribution of profits to patrons based on patronage rather than business, governance not based on investment but democratically or based on patronage, and capital investment subordinate to patron control are preserved, but modified from the models of a hundred years ago.

The overall purpose of the new statute is to allow cooperators to have the most flexibility in structuring their cooperative to meet their business needs. The flexibility is coupled with the responsibility to disclose the capital structure, governance and financial rights to members.

Under the proposed cooperative association act, a patron member can also be an investment member in the cooperative with voting rights under both classes of stock. The draft legislation allows the cooperative, through its bylaws, to

determine who would be an eligible investment member. For example, the local banker or veterinarian could become an investor while the by-laws may prohibit a large utility from purchasing an investment interest in the cooperative. Again, this issue will be up to the cop and its members.

MAC and WFC are proposing a new law for several reasons. First, start-up value-added cooperatives are experiencing difficulties raising sufficient equity capital. Therefore, nearly all are choosing to become limited liability companies (LLC's). This is certainly a concern to us as the state's cooperative association. We would prefer these new value-added ventures be cooperatives, thereby ensuring a significant producer voice in the business entity. Second, a number of cooperatives have recently begun converting to LLC's because of the inability to obtain equity to modernize and expand. Three recent examples are the Minnesota Corn Processors, Dakota Growers' Pasta and Blooming Prairie Cooperative Warehouse. Third, regarding

cooperative conversion, we are concerned profitable parts of the cooperative will be placed in the LLC and less profitable parts will remain in the cooperative. This, of course, may have a detrimental financial impact on the patron members.

We believe existing cooperatives will not, however, convert to the new cooperative law if it is enacted by the States' Legislatures. Our attorneys advise us that the U.S. Internal Revenue Service would view a conversion as a liquidation of the cooperative and a sale of assets, with the resulting effective tax rate of at least 68 percent.

Wyoming passed a somewhat similar law, but we have made some changes that provide additional patron member protections. Overall, we expect that this type of legislation will be copied by other states if Minnesota and Wisconsin pass the respective acts into law.

Based on direct response from Minnesota and Wisconsin co-op members, a substantial majority believes we must look at a second cooperative law that allows outside equity investment. We expect many existing cooperatives would use the new law for joint ventures with other cooperatives. Right now, these joint ventures are primarily LLC's. Therefore, this new law would allow the cooperatives to form cooperatives with the advantages of a LLC while remaining a cooperative.

Senior Cooperative Housing Conference

PRESENTED BY:

Senior Cooperative Housing Network
and
Minnesota Association of Cooperatives

CO-SPONSORED BY:
UW Center for Cooperatives

April 30 & May 1, 2003
Holiday Inn-Select
Bloomington, Minnesota



A networking and educational opportunity for directors, members, managers, and developers of senior housing cooperatives.

For information,
phone 651-228-0213

Highlights: The 2002 Farmer Co-ops Conference

By Kimberly Zeuli

The theme of the fifth annual Farmer Cooperatives Conference, *Restructuring for Troubled Times*, reflected the tendency of today's cooperatives to emphasize reorganization as a dominant strategy to remain viable in a challenging business environment. Held in St. Louis, Missouri, participants included over 100 cooperative leaders from the US and Canada. Several predominant themes emerged from the conference presentations and lively discussions with the audience.

The Evolving Cooperative Business Structure

Cooperatives have been compelled over time to evolve to meet changes in industry. For instance, processing cooperatives have learned that they need to be more flexible, more reliable, achieve a higher level of customer service, and meet the lowest cost and the highest value or they will simply be driven out of the supply chain. As Barry Kriebel, President of Sun-Maid Growers noted, this may mean that at times the interests of grower-members can conflict with cooperative strategies.

Based on six focus panels with 78 prominent members of the cooperative community, the recent USDA report, *Agriculture Cooperatives in the 21st Century*, identifies many challenges facing farmer cooperatives, including structural changes in the business environment, a consumer-driven marketplace, farm-to-retail supply chain management (and a growing emphasis on value-added activities), and increased concentration in food processing and marketing. The report also identifies strategies for shaping a better future for cooperatives: growth and consolidation, increased globalization, alternative equity accumulation strategies and active participation in the public policy process.

Conference participants clearly believe cooperatives can be competitive in the 21st century. In the aggregate, their net business volume has steadily increased since 1975. However, the cooperative and their members need to answer some tough questions. Do they have the heart or energy to compete? In the 1920s and 30s cooperatives had to have a lot of intensity to survive; is that drive still there? Do they have the financial resources to re-invest in their cooperative? Should the cooperative consolidate? If so, with whom? And if so, will this mean losing control? Are they prepared to lose money?

According to David Swanson, a well-known cooperative attorney at Dorsey and Whitney, the cooperative model is "not a dinosaur; there is a lot of co-op activity today and it [the business structure] is not going to go away." He acknowledged that most new farmer-owned businesses have been structured as LLCs and not cooperatives because of different, and usually more favorable, tax attributes. Swanson stressed that choosing the best business form for a new business is definitely "an art and not a science." Twenty years ago there were only three choices: partnership, corporation, and cooperative. Today in some states, such as Colorado, there are more than a dozen business forms from which to choose. In addition to tax treatment, other important driving factors in this choice include: ability to attract outside equity; securities registration requirements; access to loans; nature of the farm product involved; and nature of the end-product market.

The new *Wyoming Cooperative Model* was brought up in several of the presentations and is clearly a hot topic for the cooperative sector. The most unique feature of the Wyoming law is that it gives additional benefits to non-patron investors and as a consequence, increases their likelihood to invest in cooperatives (similar to an LLC). A new and additional cooperative law is being proposed in Minnesota and Wisconsin that is similar to the one passed in Wyoming.

Larry Swalheim discussed the *agronomy joint venture* between his cooperative, Cottage Grove Cooperative, and Union Cooperative Association (both registered as Wisconsin cooperatives). The joint venture, Landmark Services Cooperative, was established as a Wyoming processing cooperative in October 2001. Both partners thought that the fact that they could keep "cooperative" in their business name and have the possibility of attracting outside investors in the future were attractive features of the Wyoming model. Swalheim stated that the Wyoming model is favorable for many cooperative business applications and he believes it has positioned his cooperative for future success.

Successful Joint Ventures

Case studies of CHS Cooperatives and South Dakota Soybean Processors highlighted not only some of the challenges associated with joint ventures and strategic alliances, but also how they can benefit the cooperative when they are done right.

CHS has undertaken numerous joint ventures and alliances in order to gain more capital, strengthen their management, and increase market share. They have three criteria that

Continued next page



Hold the Date!

2003 Farmer Cooperatives Conference

October 29-31, 2003

Kansas City, Kansas

www.wisc.edu/uwcc

Just what IS a Co-op, Anyway?

By Ashwini Rao

What is a cooperative? How do they differ from other businesses? Who owns a cooperative? What are the different types of cooperatives? What are the cooperative principles? Did you know that two in every five people in the U.S. belong to a cooperative?

These and more of your questions are answered on a new website solely created for educating students and young members. www.wisc.edu/coops can even serve as a refresher course for those of us who would like to revisit our patronage refunds from time to time.

Cooperatives have consistently identified improved understanding of cooperative basics, particularly among young people and younger members, as a critical need. Addressing this need, the UW Center for Cooperatives has launched a Web site for high school students and young adults—<http://www.wisc.edu/coops>. This one-of-a-kind site offers learning modules on a number of cooperative issues dominant today as well as resources on scholarships for young cooperators. Adding to this repository of information are links to games and other co-op Web sites.

Made possible through funding from CHS Cooperatives Foundation, the site is part of a larger campaign to increase under-

agriculture

worker

credit unions

CO-OPS! ...AND YOU.

"There are businesses and then there are cooperatives."

Haven't you heard that somewhere before?

Did you understand it then? Do you understand it now?

But do you REALLY know what sets them apart?

Well.....it's time to find out

www.wisc.edu/coops

food

media

housing

For more information on the website:
Ashwini Rao, rao@aae.wisc.edu Anne Reynolds, reynolds@aae.wisc.edu

standing of the fundamental principles of cooperatives. Targeted primarily towards high school students and young adults, the site has three learning modules exploring issues of corporate governance, member relations, and the types of cooperatives that exist today. These learning modules use simple, easy to understand language and contain a wealth of information gleaned from various sources. Making the learning experience all the more fun are tidbits of knowledge, scenarios and quizzes.

"For a long time now, we had been thinking of a site catering directly to a younger audience," explained Anne

Reynolds, Assistant Director, UWCC, and the architect behind the website. "Our aim was to provide information in an accessible format and the web seemed the most logical place to start."

Future additions to the site will include more learning modules, case studies, short articles and additional games.

Printed copies of the learning modules, activities and other resources will also be developed and distributed to schools, state councils and cooperative organizations, benefiting the cooperative education field tremendously.

Continued from previous page

must be met—economic, strategic, and added value to co-op members. Three recent joint ventures and alliances were summarized: Ventura Foods, Horizon Milling, and Agriliance. SDSP formed strategic alliances with three companies: Urethane Soy Systems Company (USSC), Minnesota Soybean Processors (MSP), and AC Humko in order to adapt to serious challenges in their industry.

According to Brian Henahan at Cornell University, there are three key factors that create effective alliances: a high degree of trust between companies; a transparent agreement that allows both parties to fully understand all costs, benefits, and risks; and a solid decision making structure. Daniel Schultz, a CPA at PricewaterhouseCoopers, raised another consideration: "An important question to ask is whether we can count on the IRS to be here to help or whether they will make troubled times even more difficult for cooperatives?" He believes that in recent years, the IRS has been helpful, understanding the competitive pressures cooperatives face and allowing them to enter joint ventures and other strategic alliances without sacrificing any tax benefits provided by Subchapter T.

A full program summary and conference presentations can be found on our website at http://www.wisc.edu/uwcc/events/fc2002/2000_02tc.html

Current Co-op News on UWCC Website

www.wisc.edu/uwcc

The University of Wisconsin Center for Cooperatives' website offers hundreds of articles, reports, directory listings, and cooperative links from around the world. We also offer a free **e-mail News Service** that's updated at least once a week. To subscribe to **Co-op News from UWCC**, send a message to Anne Reynolds at reynolds@aae.wisc.edu

uwcc staff

Dawn Danz-Hale 230 Taylor Hall
danz-hale@aae.wisc.edu Phone: 608-262-3981

Greg Lawless 224 Taylor Hall
lawless@aae.wisc.edu Phone: 608-265-2903

Mary Pothour 230 Taylor Hall
pothour@aae.wisc.edu Phone: 608-262-3981

Ashwini Rao 225 Taylor Hall
rao@aae.wisc.edu Phone: 608-262-3382

Anne Reynolds 222 Taylor Hall
reynolds@aae.wisc.edu Phone: 608-263-4775

Philip Wells 220 Taylor Hall
wells@aae.wisc.edu Phone: 608-262-0705

Kimberly Zeuli 329 Taylor Hall
zeuli@aae.wisc.edu Phone: 608-263-3981

uwcc mission & vision statements

MISSION:

The University of Wisconsin Center for Cooperatives' mission is to study, promote and research cooperative action as a means of meeting the economic and social needs of people.

VISION:

The University of Wisconsin Center for Cooperatives will be the leading source of information on cooperatives, cooperative research and educational programming geared to enhance cooperative action and enterprise.

information services

Cooperative Library:

608-262-5440, Room 106 Taylor Hall.

UWCC Home Page:

<http://www.wisc.edu/uwcc>

UWCC Cooperative Listserver:

e-mail subscription requests to: reynolds@aae.wisc.edu

UWCC website for young cooperators:

www.wisc.edu.coops

*If you need this material in an alternative format, please contact the editor or the UWEX Affirmative Action Office.
If you no longer wish to receive the newsletter or seek additional copies, please let us know.*

Address correction requested

230 Taylor Hall
427 Lorch Street
Madison WI 53706-1503

University of Wisconsin
Center for Cooperatives

Nonprofit Organization
U S Postage
PAID
Madison, Wisconsin
Permit No. 658