



EMERGING AGRICULTURAL MARKETS TEAM

UW COOPERATIVE EXTENSION

Cooperatives: Their role for farm producers

Jody Padgham

Cooperatives (commonly referred to as co-ops) have played a significant role in Wisconsin agriculture and have the potential to play an important role for you as a farm producer. To help you learn more, we offer some background about co-ops.

What is a co-op?

In Wisconsin, the term cooperative generally evokes a certain image, whatever your background. If you grew up in the city, perhaps you think of a food or student housing co-op, your HMO or the local credit union. Rural people may think of their milk marketing, artificial insemination, farm supply or farm credit co-op. What do all of these businesses possibly have in common?

A cooperative is a formal incorporation that outlines the ownership of a business. In Wisconsin, co-ops are set up under the state statute Chapter 185, which is a 45-page set of laws that defines co-ops. Not all states have specific laws defining co-ops. Wisconsin is one of the leaders in cooperative law and cooperative history. Our state statute reflects several of the seven co-op principles that grew out of the cooperative movement in England in the 1840s, and that are universally understood as guidelines for cooperative practice. Cooperatives share the following:

- Co-ops are user-owned and member controlled.
- Co-ops generally stand by the principle of one member, one vote.
- There is a limited return on investment.
- Benefits are returned to members based on use, not investment.

The sum of these statements is that co-ops are true democracies, formed by the people for the people. Votes are doled out on the basis of one person-one vote, rather than by how much money you have to invest. No one is going to get very rich by becoming involved with a co-op.

Historically, co-ops have formed when there is a need, and thus a benefit, in people joining together. Times of economic challenge fuel the desire for the empowerment represented in cooperative development. There were a lot of co-ops formed in the 1930s in Wisconsin, when times were tough. We are seeing a lot of interest in co-op development again, as farmers struggle with challenging markets in more recent times.

A few examples

Here are a few examples of co-ops in and around Wisconsin.

- **Home Grown Wisconsin**, in the southwestern part of the state, is a co-op of about 20 members that markets its fresh fruits and vegetables to high-end restaurants in Chicago. Without the co-op, these farmers would have very limited access to this market, and would be competing with each other on price.
- **The Whole Farm Co-op** serves Minneapolis and St. Paul, Minnesota. It has about 50 farm members that offer a diversified product list to individual buyers in the cities. The co-op coordinates ordering and delivery, dropping mixed boxes of products at several churches and community centers. Products offered range from meat to eggs to maple syrup and garlic.

- The 15-member **Wisconsin Sheep Dairy Co-op** in northern Wisconsin and northeastern Minnesota coordinates pickup and sales of fresh and frozen sheep milk, and has developed a strong market in Wisconsin and the northeastern United States.
- The **Wisconsin Dairy Graziers Co-op** has four members who market using the "Northern Meadows" label. These farmers have joined together to create and market specialty products made of their seasonally produced grass-based milk.

Types of co-ops

As a producer, what type of co-op might be useful to you? There are probably three types of co-ops that you might consider joining or starting with your neighbors or fellow producers. You could be involved with a marketing co-op, a purchasing co-op or a service co-op. There are several other kinds, such as worker, housing and second level co-ops, which won't be covered here. If you would like to learn more about them, check out the UWCC web site at www.wisc.edu.uwcc.

All of the examples above happen to be marketing co-ops. In a marketing co-op, people come together to pool their product(s) so they can market together. Members might produce the same product (milk, vegetables, maple syrup, etc.) and find there are more markets available when supply is pooled to increase the quantities available to purchasers. Members also may come together to create a unified label, or to get more power to negotiate prices (which is legal for farmers). They could also join forces to take raw products (milk, corn,

soybeans, vegetables etc.) to make a value-added product (cheese, corn chips, pig food, salsa), and benefit from the added return of marketing a retail product.

Access to supplies is accomplished through a purchasing or supply co-op. Formal examples such as farm supply co-ops (like Cenex), feed co-ops or buying clubs are based on the general principle that if you buy with others, you should get easier access or better prices than going it alone. You can follow this model in an informal way, by having one neighbor coordinate an order or make a trip to a distributor who is further away to get a better deal for a large quantity purchase. As your group grows larger and the orders become more complex, you may make the transition to a formal cooperative.

Service co-ops form when people get together to obtain specific services—such as access to credit (Farm Credit Services), utilities (rural electric co-ops, telephone co-ops), insurance (Mutual Service Insurance) or specialty services (artificial insemination, baby sitting, Internet access etc.).

Getting started

Starting a co-op involves all of the same elements as starting any business—only doing it as a group. It takes time, money, hard thinking, decision-making and diverse resources to get a co-op off the ground.

There are many levels of cooperation. From simply deciding to share the work of taking vegetables to the farmers' market (not allowed by some markets, unfortunately) to the complexities of putting up a dairy processing plant, the co-op model is very flexible.

If you think you want to join with your fellow farmers in a co-op venture, what should you do? First of all, decide if you need to be a formal, incorporated co-op, or if you can just work together. You might want to formalize the relationship because of the level of risk you're taking on. Co-ops offer the protection of limited liability (if it all goes bust, you don't lose anything more than what you have invested or put in as equity). Your group might also benefit from going through the process of creating the bylaws required in a formal co-op. A formalized structure forces you to decide on rules. If any significant amount of money will be involved in the business, you may wish to incorporate so that any investment, profit or loss division is clearly understood. If these things aren't important to you, then just sit down, reach a common agreement and off you go.

It only costs \$50 to incorporate as a cooperative in Wisconsin. You will need to file forms with the Wisconsin Department of Financial Institutions (www.wdfi.org/). Your group must decide on the basic elements that become your bylaws, and elect a board of directors from within the membership that will make decisions about the business for everyone. In small

producer co-ops, the entire membership will often make up the board. It takes on average two years from the first gathering to discuss the co-op idea to the day the doors open. But of course, this depends on the project's complexity and number of people involved.

To join a co-op, you will pay a membership fee and may need to buy stock. Most co-ops require an equity investment, which is your investment as an owner in the business. In good years, the co-op can return money back to you in proportion to how much you used the co-op's services. This money will either be in the form of cash, co-op equity or both.

With more than 600 co-ops in Wisconsin, the state is a hotbed of co-op activity. Most farmers already belong to at least one co-op, or maybe several they may not even be aware of. Co-ops have been instrumental in maintaining the democratic ideal and supporting the tradition of independence we all know so well in Wisconsin. The question for you now may be: Just how can I work together with my neighbors to reap the benefits that co-ops can offer?

If you would like to find out more about cooperatives, or are thinking of starting your own, contact the University of Wisconsin Center for Cooperatives.

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