

# Cooperative Marketing Manual



## Dear Friends:

Ever since it's founding in 1967 the Federation of Southern Cooperatives/Land Assistance Fund has worked with African American farmers across the southeast United States. There have been countless cooperatives and marketing opportunities that have been spawned because of these efforts. The outreach work of the Federation/LAF has included technical assistance with cooperatives and one-on-one assistance with thousands of individual farmers on issues such as farm planning, debt restructuring, marketing, loan acquisition, production practices, etc. Importantly, the Federation also holds farmers conferences and workshops to introduce farmers to USDA, state and other non-profit experts in agriculture and marketing.

We have found in our work, however, that there is not enough material available to advise cooperatives in their marketing practices. With this document we want to help rectify that lack of information by sharing the experiences, practices and marketing concepts of some of the cooperatives in the Federation's network.

We also wanted to share some of the compilation of materials created by the Federation/LAF on organizing cooperatives. Many of the materials in the document were developed in the early organizing work of the Federation/LAF. We also appreciate the material from remarkable resources such as the National Cooperative Business Association, the Cooperative Development Foundation and the United States Department of Agriculture. We are particularly thankful to the USDA's CREES-Risk Manage-

ment Education for the grant we received to help fund this research and interviews.

Included also is information on marketing such as developing marketing plans and better understanding pricing, We are particularly appreciative of other resource materials from the Minnesota Institute for Sustainable Agriculture in this section as well as market materials from Tuskegee University.

We at the Federation of Southern Cooperatives/Land Assistance Fund are also thankful for the farmers and cooperatives themselves for sharing with us their marketing and farming practices so that we can share their important work with other farmers across the country. These marketing case studies might offer ideas for other cooperatives to perhaps model their marketing plans and/or to strengthen their marketing practices.

It is also essential to mention that the Federation/LAF has in recent years developed SOCO - Southern Cooperatives. This is an independent regional marketing arm of the Federation/LAF that is now marketing watermelon and beginning to expand to the marketing of vegetable crops. The opportunities for cooperatives to collectively market their crops through SOCO is now opening vast markets in the southeast and in other areas, such as New England. We are hoping that many of our farmers and cooperatives in the region will participate in SOCO to then strengthen their marketing potential in the region and country.

Sincerely,

**Heather Gray, Communications Director/Cooperative Marketing Manual Project Director  
Federation of Southern Cooperatives/Land Assistance Fund**

## Reference and Resource Materials

**Materials that were most helpful in the development of this document for are from the following institutions and individuals:**

Cooperative Development Foundation

Minnesota Institute for Sustainable Agriculture

National Cooperative Business Association

Tuskegee University

United States Department of Agriculture

Attorney George Howell

Cornelius Blanding, Federation of Southern Cooperatives/Land Assistance Fund's Marketing Director

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Cornelius Key, Farmer, Federation/LAF Agriculture Specialist and member of the Flint River Farmer's Cooperative

Melbah Smith, Project Director, Mississippi State Association of Cooperatives

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# Table of Contents

## About Cooperatives

(1) Defining Cooperatives

(5) Organizing Cooperatives

(9) Cooperative Structure

(13) Cooperative Committees

## Marketing Cooperatives

**Summary: Interviews with African American Cooperative Members of Cooperative Marketing (18)**

**Marketing Cooperative Narratives**

*Mississippi Cooperative Marketing (19)*

*Alabama Cooperative Marketing (23)*

*Georgia Cooperative Marketing (25)*

## Cooperative Marketing

(15) What are Farmer Cooperatives?

(15) Cooperative Marketing Agreement

(15) Ownership & Building Equity in Farmer Cooperatives

(16) What is a Marketing Cooperative?

(17) Benefits of Cooperative Marketing for Vegetable Producers?

## Co-op Marketing Plans

Introduction (29)

The Ideal Marketing Cooperative (29)

Promotion: How and what will we communicate to our buyers or customers? (30)

Pricing and Profitability (31)

Differentiated Producer Pricing Strategies (32)

Other Pricing and Marketing Practices (33)

### INSERTS

*Significant Dates in Co-op History (2); Cooperatives vs Investment Oriented Corporations (3);*

*Cooperative Statistics (5); Sequence of Events: Steps to Organize a Cooperative (6);*

*Examples of Kinds of Cooperatives (7); Cooperatives Change Things (8); How Do We Control Cooperatives (9);*

*Cooperative Principles (10); The Cooperative Principles at Work (10);*

*The How-to's of Developing Farmer Managed Cooperatives (11); Who Runs the Co-op? (13);*

*The Process of Marketing Cooperatively (16)*

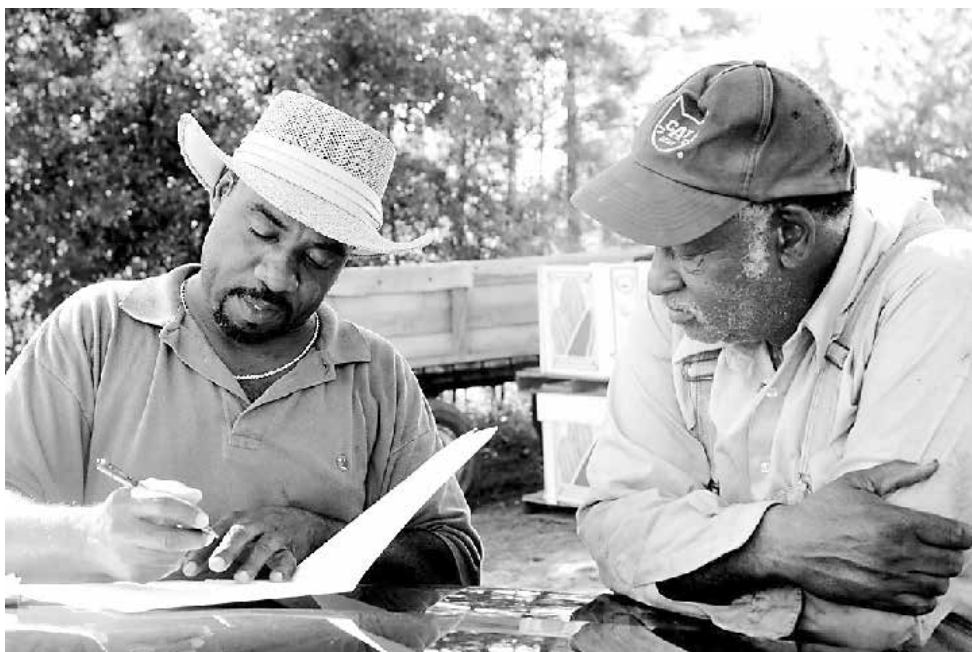
### APPENDIX

- Cooperative Board of Directors (34)
- Sample Cooperative Bylaws (36)
- Sample Cooperative Marketing Agreement (41)
- Legal Considerations When Forming a Cooperative (43)
- History of the Federation of Southern Cooperatives/  
Land Assistance Fund (44)

Designer/writer/editor: Heather Gray, Director of Communications



# About Cooperatives



Georgia farmer and SOCO coordinator, Cornelius Key, assisting farmer with watermelon shipment

## Defining Cooperatives

*In cooperative ventures we were making business decisions at an early age - decisions that white males were generally making when they got into their late fifties and sixties. In the United States, there are four types of businesses - individual proprietorship, partnership, corporations and cooperatives. All successful businesses are based on four ingredients - land, labor, capital and management. Even in our 20's, as owners of cooperatives, we learned finance and management. We had to read balance sheets and understand bonding and basically the different financial arrangements necessary to capitalize the needs of the particular business we were involved in.*

**Wendell Paris**  
**First Director of the Federation of**  
**Southern Cooperatives**  
**Training & Research Center**

### **What Is Cooperation?**

Cooperation is a concept that was probably developed in pre-historic times. Whenever people associate for mutual benefit, we have cooperation. Many examples of cooperation have been used throughout history. Quilting bees, corn shuckings, barn raisings all are examples of cooperation.

Today, cooperation is needed more than ever. An individual wants to travel to a distant city. She has a car and advertises on the community bulletin board for a rider who wants to travel to the same city at the same time and can buy the gas. Both will benefit. The owner of the car and the rider can use the car along with the gas, share driving and they both reach their desired destination. By cooperating, it is not necessary that either person contribute everything to the job in order to benefit from the results.

### **What is a Cooperative?**

A cooperative is a group of people who have joined together to control their own destiny.

A cooperative is one of the best ways for a large number of people to own a business. Many people do not have enough money to start businesses by themselves. But if they pool their money and ideas, they can organize themselves cooperatively into many businesses.

A cooperative gives people a way to keep the money they make in their own community rather than to another city, state or country.

Only when people begin to control their own businesses will they be able to have some control over what happens to their community and country.

A cooperative is a business that is organized on a voluntary basis. It is owned and controlled by its members who are generally the major users of the business. The members share in the benefits and risks of the business which is directly related to how much they use the business.

Cooperatives are established to serve a specific need. Once a common need is recognized by a group of individuals, the basis for organizing a cooperative is clear. After the business has been established, an effective manager can help the membership to recognize additional areas of need and grow to meet those needs.

Persons that are interested in community development are especially attracted to cooperatives as a mechanism for that process.

### **Members are the Cooperative**

Each member has one vote in controlling the policies of the business and earnings are based on the amount of trade that each member does at the cooperative rather than the amount of money invested.

Members support the co-op by doing business with it and remain loyal to it.

Members also support the co-op by investing in it. It takes money for the co-op to grow. When members put money into the co-op they help to build the business and at the same time invest in their own future.

Members support the co-op by encouraging others to join.

Members support the co-op by taking an interest in it. Co-op members should keep themselves informed of the activities and of important decisions that are made.

### **What Cooperatives Do**

Cooperatives usually perform any one or a combination of three kinds of service functions, but with varying emphasis. They are generally classified by their major activity.

### **Significant Dates in Co-op History**

**1752** - The first successful cooperative was organized in the United States when Benjamin Franklin formed the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire — the oldest continuing cooperative in the U.S.

**1844** - The Rochdale Equitable Pioneers Society was established in Rochdale, England. These pioneers wrote down a set of principles to operate their food cooperative that contributed to their success and spread to other cooperatives around the world. The successful establishment of the cooperative in Rochdale marks the beginning of the modern cooperative era.

**1865** - Michigan passed what is believed to be the first law recognizing the cooperative method of buying and selling.

**1895** - The International Cooperative Alliance (ICA) was established. Today over 200 national cooperative organizations representing 92 nations belong to ICA, the apex organization of all national cooperative movements. The ICA aims to promote cooperative development and trade worldwide and boasts an individual membership of more than 750 million people.

**1916** - The first national cooperative association was formed — now known as the National Cooperative Business Association.

**1922** - Congress passed the Capper-Volstead Act allowing farmers to act together to market their products without being in violation of antitrust laws.

**1920s & 30s** - Congress established governmental agencies — the Farm Credit Administration (1929), the National Credit Union Administration (1934) and the Rural Electrification Administration (1936) — to provide loans and assistance to cooperatives.

**1978** - Congress passed the National Consumer Cooperative Bank Act, establishing the National Cooperative Bank.

**2000** - In 2000, NCBA brought co-ops to the cutting edge of technology by successfully lobbying the Internet Corporation for Assigned Names and Numbers to create a new top-level Internet domain—.coop—exclusively for cooperatives. The .coop registry, launched in January 2002.

*From the National Cooperative Business Association*



(1) **Marketing Cooperatives** market products members produce - milk, fruit, vegetable, grain, livestock, rice, poultry, cotton, sugar, cane, sugar beets, and many specialty products. Marketing includes assembling, processing, and selling raw or processed products in retail or wholesale markets for members. Several cooperatives market on a regional or national basis.

*We need to encourage record keeping because with records you can maintain your financial history throughout the crop season. From a cooperative perspective its good to be able to compare your records from the various quarters and then to speculate why there might be differences or fluctuations....see where you are or how far you've progressed.*

(2) **Purchasing Cooperatives**, often called farm supply or supply cooperatives, provide farmers with many production supplies for their farm operation. Major items include feed, fertilizer, petroleum, seed, farm chemicals, as well as building materials and farm equipment. Many local cooperatives have formed regional cooperatives to obtain or manufacture supplies.

Purchasing Co-ops cut out the middle man by buying directly from the wholesaler. The savings are passed on to the members.

Farm supply cooperatives provide the farmer with seed, and farm equipment.

**Michael McNair**  
**Marketing Specialist**  
**Indian Springs Farmer's Cooperative**

A petroleum cooperative provides people with gas, oil, tires and other supplies.

One thing to remember is that it is difficult for a cooperative to give credit to its members. This is especially true for low-income co-ops. The reason is that the co-op operates on a low margin and it doesn't have a lot of extra cash on hand and why the co-op encourages members to buy on a cash basis.

Consumer goods can also be purchased wholesale by cooperatives in a manner similar to a buying club. Items could range from wearing apparel to household furnishings.

As we view cooperatives as a vehicle for providing services to consumers, let us not overlook the value of the cooperative to the producer. The cooperative can provide the producers with essential marketing services as well as other operating needs. Each cooperative in this category is essentially unique. The goods produced, the environment, and the size of the organization may vary, but the underlying cooperative principles are still embraced.

(3) **Service Cooperatives** provide services related to the production and marketing of farm commodities, or common needs in other areas. These other services include credit, electricity,

## **Cooperatives vs Investment Oriented Corporations**

### **Cooperatives**

- *A cooperative benefits its members*
- *Owned by the members who use the products or services*
  - *The members decide how the co-op is run*
    - *Used by members-owners*
- *The goals are generally services to and for members and financial well being of the cooperative and its members*
  - *Savings and benefits are passed on to the members depending on the amount of business they do with the co-op*

### **Corporations**

*(Investment oriented)*

- *Private businesses operate to make a profit. These profits go to make a few people very rich.*
  - *Owned by stockholders*
    - *Stockholders or directors determine policies*
    - *Generally used by non-owner customers*
  - *The goal is generally profit rather than service*

telephone, insurance, irrigation, artificial breeding, plant and animal research, pest management, grove care, forest management, housing, credit unions and many more.

The new cooperative will have a better chance to survive if it begins by marketing a few products, selling a few supplies, or providing a limited range of services in a well-defined geographic area. As members and management gain experience, new products and services can be added and its operating territory expanded.

The purpose of the co-op is not to make profits but to provide services and benefits to its users. The co-op serves its members by providing them with quality products at fair prices.



Any money left over at the end of the year is surplus, not profit. The surplus belongs to all members because they have helped to make it. It can be used to expand the co-op, to hold as an investment for expansion or to give back to the members according to how much they used the co-op's services the last year.

People who own their own business would not cheat themselves. They want a business that gives them services and savings. The co-op managers and employees are hired by the Board of Directors to provide these services to the members.

### **Multi-Service Cooperatives**

A cooperative could expand to provide more than one service to its members.

For example, a farmer marketing co-op can also set up a credit union. A small deduction can be made from a member's sales to go into his or her savings account.

Many members of low-income co-ops need better housing. Since co-ops are people who are organized to solve their own problems, the co-op may help develop self-help cooperative training.

The cooperative can also help provide day care centers and recreational programs.

*It's the idea that sparks the cooperative and it produces longevity for the co-op. It's a situation where people recognize that they have the same concern...the same problems are able to generate the same vision as to where they want to go. The co-op will last then. If you don't have that foundation for a co-op it probably won't last. If you build your house on sand it will waste away but if you build your house on rock it will stand. When the winds come, when the floods come, when the sun burns real hard and heavy the foundation will always be there - so you must build a co-op on a solid foundation.*

**Melbah Smith,**  
**Director Mississippi State Office,**  
**Federation of Southern Cooperatives/**  
**Land Assistance Fund**



South Carolina farmer beekeepers

# Organizing Cooperatives

## Who Sparks The Cooperative Idea?

A compelling need and a few leaders can spark the idea of forming a cooperative.

Usually, these leaders are producers who have an economic need they believe can be fulfilled by a cooperative. They also know others who have a similar need. These leaders can be farmers, fishermen, or rural craft producers who lack or are losing a market for their products, satisfactory sources of production supplies, or services related to their occupation. Or they wish to provide themselves with some other needed service, or to develop sources of added income.

In this section and in the appendix are addressed the actual steps toward organizing a cooperative as well as the important consideration of selecting the board of directors that drive and govern the co-op.

## Steps To Organize A Cooperative

Starting a cooperative is a complex undertaking. Yet a project starts with a small group of producers discussing a common problem and developing an idea of how to solve it. Depending on the situation generating the idea, a new cooperative may be welcomed with enthusiasm or met with vigorous competitive opposition. If the latter is the case, leaders must be prepared to react to various strategies of competitors, such as: Price changing to retain the business of potential cooperative members; better contract terms or canceled contracts; attempts to influence lenders against providing credit; and even publicity, misstatements, and rumors attacking the cooperative business concept.

Regardless of the business climate for the proposed cooperative, members must demonstrate a combination of leadership, expertise, enthusiasm, practicality, dedication, and determination to see the project completed. **Please see the “Sequence of Events” for organizing a cooperative on the next page. There are also sample cooperative bylaws in the appendix.**

## Cooperative Statistics

- 29 cooperatives have **annual revenue in excess of \$1 billion**, including such well-known names as Land O’Lakes, Inc., and ACE Hardware. The top 100 co-ops have a combined \$117 billion in revenues.
- Cooperatives **range in size** from large enterprises, including U.S. Fortune 500 companies, to single, small local storefronts.
- **270 telephone cooperatives** provide service to two million households.
- Some **250 purchasing cooperatives** offer group buying and shared services to more than 50,000 independents businesses.
- **Nearly 10,000 U.S. credit unions have 84 million members** and assets in excess of \$600 billion.
- Cooperatives operate in **every industry** including agriculture, childcare, energy, financial services, food retailing and distribution, health care, insurance, housing, purchasing and shared services, telecommunications, and others.
- About 30 percent of farmers’ products in the U.S. are marketed through more than **3,000 farmer-owned cooperatives**.
- Approximately **900 rural electric cooperatives** own and maintain nearly half of the electric distribution lines in the U.S., cover 75 percent of the land mass and provide electricity to 37 million people.
- More than **1,000 mutual insurance companies**, with more than \$80 billion in net written premiums, are owned by their policyholders.
- More than **6,400 housing cooperatives** provide homes for 1.5 million households.
- U.S. co-ops serve some **120 million members**, or 4 in 10 Americans.

*Statistics gathered from various sources  
as of March 2005.  
National Cooperative Business Association*



## **Sequence Of Events: Steps To Organize A Cooperative**

1. Hold meeting of leading producers to discuss the economic needs that a cooperative might fulfill for individuals producers and the community.
2. Hold an exploratory meeting with producers who might be interested in a cooperative. Share information about the benefits of a cooperative from the first meeting. Vote whether to continue. If affirmative, select a steering committee.
3. Conduct a producer survey as a basis for determining whether creating a cooperative might be of interest to the producers.
4. Hold second general meeting to discuss results of the producer survey. Vote on whether to proceed.
5. Conduct a market (or supply) and cost analysis of the potential cooperative activities (i.e. if it is to be a marketing cooperative analyze the cost benefits of marketing cooperatively).
6. Hold a third general meeting to discuss the results of the market (or supply) and cost analysis. Vote whether to proceed, this time by secret ballot.
7. Conduct a financial analysis and develop a business plan.
8. Hold the fourth general meeting to discuss the results of the financial analysis. Vote again on whether to proceed. If affirmative, vote a second time on whether the steering committee should remain intact or changes should be made.
- 9. Draw up necessary legal papers and bylaws and then incorporate. (Please see the sample bylaws in the appendix.)**
10. Call a meeting of charter members to adopt the bylaws. **It's a good idea to invite all potential membership to ratify the bylaws.** Elect a Board of Directors.
11. Call the first meeting of the board of directors and elect officers. Assign responsibilities to implement the business plan.
12. Conduct a membership drive.
13. Acquire capital, including developing a loan application package.
14. Hire the manager.
15. Acquire facilities.

## Examples of Kinds of Cooperatives

*The services that cooperatives offer vary greatly from one situation to the next. The determining factors include whether you live in a rural area or in an urban community, or whether you are a producer or a consumer. The specific needs of the community will however, be the overriding factor in determining what kind of cooperative will be successful. Some of the more common cooperatives are described briefly below.*

### **Housing**

A housing co-op is a method where people provide housing for themselves through group ownership of a multi-family unit or even a subdivision of single family housing. The tenants are the owners, sharing a single mortgage, at great savings, making cooperative housing especially attractive to low and moderate income families. Housing cooperatives are very complicated and complex businesses. Basically, each member owns an interest in the business. The business owns the housing. Each member who owns a share of the business has the right to live in a specific unit, but does not own it. A cooperative is primarily organized to serve a need, not to make a profit; therefore, the emphasis is placed on providing good housing to members at low costs, and the returns on funds invested are limited but the benefits to the members is great.

### **Auto Repairs**

This is a new area where cooperation is springing up. In some cases where the membership is large enough, the members own the shop and hire a staff of competent repairmen. Other auto repair co-ops are self-help in nature whereby the members own the repair shop and equipment but each member must complete the work on their own vehicle.

### **Farm Equipment & Supplies**

Farmers are a likely group of cooperators. They join together to make purchases of farm production supplies for lower prices and to ensure quality merchandise. In cases where you have small farmers that also plan to sell their crops or animals together, cooperative purchasing of farm input insures that they will have a uniform product for the market.

### **Vegetable Marketing**

The farm produce marketing cooperative provides an essential service to the small producer who lacks the volume needed to ship his produce directly to market outlets. By joining with other farmers producing the same crop, farmers can bypass the middleman, grade their own produce, package it and sell by the truckload directly to supermarkets and wholesalers. The more middlemen the farmer is able to bypass, the larger return he is able to make on his crop. By working together with other farmers, he is able to reap greater benefits from his work.

### **Buying Clubs**

The buying club is a simple solution to the problems of high food costs. A small group of people pool their grocery orders so that they can buy at wholesale outlets. The buying club depends on the voluntary work effort of its members to keep operating.

### **Supermarkets**

Cooperative food stores have been successfully organized in isolated communities beginning with a buying club and expanding gradually into a store front operation. In urban areas, a cooperative must compete with chain supermarkets and require hundreds of thousands of dollars of investment capital. This venture is not recommended to people of modest means as a first project. The customers own the store and hire 8 staff to run the operation on a day to day basis. Goods are generally sold at competitive prices with patronage refunds given at the end of the year.

### **Credit Unions**

A credit union may be organized separately or in conjunction with almost any other kind of cooperative. The credit union is a mechanism that allows its members to save money to-

gether and make short term loans to each other at low interest rates. Each credit union is based on a "common bond". The bond may be cooperative membership, community residence, or church membership. A credit union is one of the easiest cooperatives to organize.

### **Quilting**

Quilting is a skill long practiced in the rural South. It is a tedious, time consuming art. A group of ladies in Alabama have taken their years of experience in quilting and have turned it into the largest business and employer in their town. The members own the building and the equipment. They have hired a manager who is responsible for organizing the work, developing sales, etc. For the ladies, the mutual benefit is jobs. By working together to produce a quality produce in volume, they are able to sell their quilts and other goods to large department stores around the country and get a fair price for their labor.

### **Fishing**

Fishermen are able to market their catch for higher prices by working together. Each fisherman owns his own boat and catches his seafood. The boats go out to the same vicinity and catch the same type seafood at the same time. The fishermen own the dock and processing facilities together. By processing and packaging their own seafood, the fishermen are able to sell to wholesalers who pay more for the seafood and are able to eliminate the need to sell to processing plants for low prices. An added benefit is that now the fishermen can sell enough seafood to pay their operating expenses and freeze and hold a portion of their catch until market prices are at their highest, giving them the greatest benefit from their work.

## How Are Cooperatives Legally Organized?

Limited-resource cooperatives must organize and operate according to all federal, state and local laws and regulations. Particularly significant to success is the use of professional legal assistance in complying with legal requirements in organizing, operating and reporting. Information provided through training meetings can be beneficial to officials and members alike. Assistance would be directed to acquainting members of their legal responsibilities and preventing misunderstanding, especially in the early stages of operation. Training could be accomplished through personal contact and small group meetings.

A major objective is to develop a legal structure that will serve member-patrons in the most efficient manner. Most limited-resource cooperatives may best serve the membership by operating on a tax-exempt basis. All saving could be allocated to member-patrons. On the other hand, some may choose to forego tax-exempt status to simplify record keeping and to take advantage of more flexible operating procedures. As cited earlier, securing adequate volume is a problem confronting many limited-resource cooperatives. Non-exempt cooperatives might increase volume by conducting additional business with non-members. These and other considerations should be carefully evaluated in forming the legal structure.

Incorporation is a must in organizing cooperatives. Once created, the cooperative is a legal entity. Usually, they are incorporated, which requires a firm to prepare a set of papers called "articles of incorporation" which are sent to the appropriate state office.

These articles specify the name of the organization, its purpose, its place of business or headquarters, and the number of directors and whether the capital is stock or non-stock. It may own property, engage in business, sue and be sued, and act in most of these matters as a legal person in the eyes of the law. Owners' liabilities are limited to the assets of the cooperatives. All officers, directors, agents, employees, or members who have the responsibility of operating the cooperative should be adequately bonded or insured.

Many officials of limited resource cooperatives will not be familiar with the legal structure under which their business must operate. Representatives from local, state, and federal agencies and organizations that relate to cooperatives are usually available to help groups with problems of legal compliance.

From time to time the cooperative will be faced with operating decisions, which necessitate legal counsel - for example, the development of marketing and service contacts between the cooperative and its members or with manufacturers and suppliers. Because of the many legal implications for the cooperative, it is wise to establish a local reliable legal counsel. This could prove to be one of the cooperative's wisest investments.

## Cooperatives Change Things

### People

Co-ops get people working together and keeping them together.

### Money

Co-ops get money into your community and keep it there.

### Power

Co-ops are the strength of members to change things that need changing.

*"Our cooperative is like the railroad station in our community. It will be here, even if the trains don't come anymore and somebody far away decides to pull up the track, we will have our cooperative in our community because we built it ourselves, no matter whatever else happens." Mr. Steptoe is deceased now but his words are prophetic and describe the past quarter century of the history of the Federation/LAF.*

*Steptoe was one of the many courageous pioneers of our cooperative movement.....He helped organize the vegetable marketing co-op as part of his civil rights/community economic development work.*

***Federation of Southern Cooperatives/  
Land Assistance Fund's 25th Annual  
Report (1992).***

## How Cooperatives Finance Operations

Cooperatives must have ownership capital to conduct day-to-day operations, build or buy facilities, and provide a base for acquiring loans. Producer-members must provide this capital. A cooperative acquires capital to fulfill these needs in three different ways: (1) Seeks capital investments from members to start up or expand operations; (2) Retains patronage refunds, usually a portion of the total amount, then returns the amount to patrons in later years; and (3) Deducts per-unit capital retains from proceeds of sales based on the value or quantity of products marketed. Retains also should be returned to patrons in later years.

## Cooperative Structure

The three groups of people that are essential to start a cooperative and operate it successfully are the Members, Board of Directors and Management.

### Membership

Members, as owner-users, are the reason the cooperative is organized. They justify its continued existence through their patronage, capital investment, and participation in decision-making. They should be personally interested in the cooperative's affairs, present ideas to improve performance, and promote it to others who could benefit by using it.

### Criteria

Members support the cooperatives through their loyalty, patronage, interests and capital investment. They keep up to date on its affairs and activities by attending meetings and by requiring the board of directors to provide them with adequate information. They elect the board of directors and vote on other matters that require stockholder approval or rejection. The relationship between members and the cooperative is intimate and personal. Members abide by the established policies of the cooperative and are alert for changes to enable the cooperative to do a better job.

### Educational Implications

**1. Member Support:** Establishing and maintaining member support is a major problem in the successful operation of limited-resource farmers. The degree of success of the farm business may be a factor influencing the farmers' personal involvement in the cooperative.

A viable educational and promotional program must be carried forward from the outset and must be continued as the cooperative develops.

## How do we Control Co-ops?

### One Person - One Vote

Each member has an equal vote. This means that no member has more control of the co-op than any other member.

We use our votes to:

- elect a Board of Directors
- make important decisions

It is important for all the members to attend the Annual Meeting of the co-op. At the annual meeting, the board of directors and the members decide on the goals of the co-op for the coming year.



Southwest Georgia cooperative meeting



Meetings with individuals and small groups throughout the area served by the cooperative may be necessary to stimulate participation. The organizational plan should include a procedure for recruiting members and enlisting their active support for the cooperative.

An educational program for developing member support should include information on the following.

- *Meeting the needs of members.* Persons belong to cooperatives because they expect benefits. The degree of support depends largely on farmers understanding how the cooperative can serve their needs and interests. Much of this educational effort will, of necessity, be through individual contacts. Fieldmen are frequently employed for the specific purpose of conducting the cooperative's membership program. In some cases they also provide production and marketing assistance to farmer members.

- *Responsibilities of members.* It is the responsibility of members to attend meetings, to vote on issues, to patronize the cooperative, to invest in its development, and to become familiar with basic policies, procedures, and legal requirements.

- *Responsibilities of the cooperative.* The cooperative should build a favorable image, provide services for members where a need is justified, and seek to become an influence in the economic development of the area it serves.

- *Member investment.* Member investment in a cooperative has long been a basis for attaining continued interest and support. A member with an investment is more likely to be concerned about the operation of the cooperative than one with no investment.

- *Building a good business image.* The cooperative should use proven business practices and sound judgment to build interest and confidence among members.

- *Making annual meetings a pleasant and informative affair.*

- *Involving youth.* Young people should be invited to attend meetings with the rest of the family. They should be taught the benefits of cooperation and should be involved in the organization's activities. Some cooperatives support special projects that have appeal for young people.

**2. Good Member Relations:** An effective member relations program can do much to promote small farmer membership and to stimulate support for the cooperative. The effects of

## Cooperative Principles

### **Open Membership**

A co-op is open to all persons who have a common need or interest.

### **One Person - One Vote**

Co-ops are democratically controlled by their members.

### **Limited Return on Investment**

To ensure that the benefits of the co-op go to those who use it most, the co-ops will depend on their members to be owners and customers.

### **Benefits Returned According to Use**

In a co-op, any margins earned on operations above expenses, and a reasonable reserve, are available for return to members based on their patronage of the co-op. In a co-op, any of the expenses that can be reduced by voluntary efforts of the members reduces the cost of the item to all of the members.

### **Business for Cash Whenever Practical**

Co-ops must raise most of the capital and operating funds from members because granting credit is expensive and always risky.

### **Constant Expansion**

Members will earn increased services from the co-op if it is effectively serving its members.

### **Constant Education**

Since the cooperative form of economic organization is new to most people, especially poor people, education is constantly needed by the members.

## **The Cooperative Principles At Work**

The most important factor in making these principles work is people who are willing to work together on a common problem they want to solve. The principles can be adapted to solve many different types of problems. In most businesses today wealth is the most important element; however in a co-op, participation helps to determine how much wealth and benefits are created for the membership. Because co-ops are dependent on participation, rather than previously accumulated wealth, they provide a way for poor people to develop ownership and more control over their destiny.



a good member relations program can be far reaching and long lasting. An effective program should focus on the following:

- Employing qualified managers
- Training employees to competently serve members.
- Training directors in their responsibilities to members.
- Treating all patrons in an equitable manner.
- Providing quality service and/or products.
- Keeping adequate records.
- Creating a favorable public image.
- Pursuing sound objectives
- Keeping members informed on cooperative business.

## **The How-to's of Developing Farmer Managed Cooperatives**

### **A Cooperative Structure**

#### **Membership**

- Are owner-users
- Are the reason the cooperative is organized
- Justify a cooperative's continued existence through membership patronage, capital investment, and participation in decision making
- Should be personally interested in the cooperative's affairs
- Presents ideas to improve performance
- Promotes the cooperative to others who could benefit from usage

#### **How Is A Cooperative Financed?**

- Membership fees
- Withholding from sales
- Deferred refund system
- Mark-up on purchases
- Certain assessments
- Sale of shares of stock
- Encourage members to **stay informed !**
- MANAGERS DO NOT SHARE OWNERSHIP

#### **How Do We Control Cooperatives?**

- One Person - One Vote
- Each member has an equal vote. This means that no member has more control of the co-op than any other member.
- We use our votes
  - to elect a Board of Directors
  - to make important decisions

It is important for all members to attend the Annual Meeting of the co-op. At the annual meeting, the board of directors and the members decide on the goals of the co-op for the coming year.

**Ben Burkett - Mississippi Farmer  
Indian Springs Farmer's Cooperative**

**3. Effective Member Communications:** Limited-resource members can exercise effective control through their directors only if they are informed regarding the organization and its business. There should be a continuous coordinated actions between members, management, board of directors, and employees. Members need to know about operating policies and practices, prices and costs, and other aspects of the business that may affect them. For example, if members believe they can purchase products for less at other outlets, support may be lacking. Members need to understand that patronizing their cooperative may help create a more favorable competitive climate.

#### **Board of Directors**

The board of directors is the policy making body. Directors are elected from within the membership by members to represent them in overseeing the cooperative's business affairs. Usually 7 to 9 outstanding members are elected to provide leadership. Directors, as trustees, establish policy, report to members, and give direction to the manager. Directors are held accountable for their actions in conducting business affairs by State and Federal laws applying to businesses generally and by the specific bylaws of their cooperative. (Please go to the Appendix section on "Choosing the Members of the Board of Directors" for details on (1) Considerations for Choosing, (2) Questions for Discussion, (3) Duties and Responsibilities, (4) Serving and Qualifications of the Board of Directors.)

The most important factor in making these principles work is people who are willing to work together on a common problem they want to solve. The principles can be adapted to solve many different types of problems. In most businesses today wealth is the most important element; however in a co-op, participation helps to determine how much wealth and benefits are created for the membership. Because co-ops are dependent on participation, rather than previously accumulated wealth, they provide a way for poor people to develop ownership and more control over their destiny.

## Management

Management consists of two models: (1) The elected board of directors and (2) The hired manager and key supervisors. Below please find information about the hired manager model.

### *Hired Manager Model*

The manager supervises and coordinates day-to-day operations by managing people, capital, and physical resources. The manager supervises and coordinates business activity, develops plans to reach objectives, and takes steps to carry out board policy.

The manager's job is the hardest job in any business, especially a cooperative. It is also the most important. If the job is not done right, neither the job nor the co-op is going to be around very long.

In a cooperative the manager is the key employee. He/she runs the business for the members, who own the co-op. The manager has to plan, organize, direct, and control the business so that the objectives of the members can be reached.



Even if managers don't do all the work themselves, the manager has to know how. They have to be a sort of jack-of-all-trades. They must know how to buy and sell. They must know about finances and bookkeeping. They must know how each machine runs.

If the co-op doesn't serve the people better than any other business, the manager is a failure.

But if the co-op has a good manager, the business will operate smoothly and the co-op will grow.

The following is a list of some of the responsibilities of the manager:

- Make reports and recommendations to the Board of Directors
- Help the Board make policies by giving all the facts and information needed



*The cooperative principles call for constant expansion and it allows for other things and ideas. Once you've got the first thing down really well and you're really good at that then you can move to the other things that the members are interested in. But for some co-ops when other people come in they think it's another organization, other than a co-op, and they want to run it like other organizations. But co-ops are different. Co-ops are from the heart. It's something that people have in common. If people are concerned about something - it's something that's within them and they express it to others. If I say something to you and you say, 'oh yes I'm concerned about that, too' then our hearts meet, minds meet, our spirits meet and we say, 'Okay, let's begin to do this and we can work together.'"*

**Melbah Smith**  
**Director Mississippi State Office,**  
**Federation of Southern Cooperatives/**  
**Land Assistance Fund**

- Carry out the Board policies
- Get help from the board when necessary
- Take a hard look at the business of the co-op to see if it can be expanded or improved
- Estimate the yearly budget and submit it to the Board for approval
- Make sure the co-op doesn't spend more money than it takes in
- Estimate how much capital the co-op will need so the Board can arrange for finances

### **Advantages of a Cooperative**

*"In the co-op there's power in numbers – anytime you have an organized group, compared to working as an individual, you have a lot of people behind you. So if you're talking with the USDA, and they know your co-op they also know that rather than dealing with one individual they might have to deal with a lot of people. It gives you more power."*

**Barbara Mitchell**  
Mississippi Organic Farmer

- Train and supervise employees
- Set standards for the co-op so it does high-quality work
- Help the Board plan membership meetings
- Report to the membership and help develop member confidence in the co-op
- Engage in cooperative development and in establishing the cooperative ideal through community activities and cooperation with other cooperatives

## **Cooperative Committees**

The Standing Committees in most cooperatives are the following: Finance/Planning; Planning and Development; Member and Community Relations; Consumer Information and Protection. The Board may name special committees as needed. One board member will be named as a liaison with each committee. Committee chairpersons are urged to attend all board meetings except those from which members are barred.

### **1. Finance/Planning Committee**

The role of the Finance/Planning Committee is to oversee the development, implementation, and annual review of the long range Strategic Plan of the cooperative. The committee conducts a self-evaluation of the Board of Directors performance and oversees the development and annual update of a facilities maintenance/repair schedule on all buildings and equipment. In addition, it oversees the development and annual update of a capital budget showing planned improvements and the implementation of all financial and planning policies and propose necessary revisions

### **Who Runs the Co-op?**

Co-op members elect a Board of Directors to make the policies and carry out the important business of the co-op.

Board Members are also responsible for:

1. Taking care of the finances of the co-op
2. Planning for ways to improve and expand the co-op
3. Informing the members of all the important decisions made at the board meeting

The Board of Directors appoints a manager to run the daily business of the cooperative. The manager makes monthly reports to the board on the progress made in carrying out the goals of the business.

or additions to the policy committee. It also reports and makes recommendations to the full Board on any lease negotiations. The Treasurer shall be the Committee Chairman.

## 2. Planning and Development Committee

The role of this committee is to estimate the future growth direction and needs. It surveys the membership to find out what new services, facilities and locations are desirable. It develops standards for, and makes recommendations regarding new sites and services. Maps out long-range goals, and recommends appropriate action.

## 3. Member And Community Relations Committee

This committee has a number of responsibilities including: (a) Developing and helping implement programs to create and inform participating and enthusiastic membership. (b) Seeking improved channels of communication between members, staff and Board- through bulletins, meetings, etc. (c) Reviewing educational materials, literature and procedures. (d) Making recommendations on use of funds allocated to education budget. (e) Seeking improved ways to carry the cooperative message to the total community. (f) Making recommendations regarding contributions. (g) Seeks improved relationships with other cooperatives. (h) Assists efforts to build membership and to promote cooperative development.

## 4. Consumer Information And Protection Committee

The responsibilities of the committee are to: (a) Help members and patrons to be better-informed consumers through displays, conferences, demonstrations, leaflets, etc. Inform consumers about consumer protection services of public and private agencies. (b) Seek to reduce misleading packaging and labeling, and to reduce hazards to consumers. (c) Review cooperative packaging, labeling and merchandising policy and practices; recommends changes to improve cooperative standards in these fields. (d) Studies proposed consumer information and protection legislation; recommends a course of action for co-op members and for the cooperative. (e) Participate actively in local and regional consumer organizations. (f) Study conservation and anti-pollution problems, and proposed remedial action; (g) Recommends courses of action for co-op members and for the cooperative.

*The cooperative movement was an outgrowth of the civil rights movement. A number of us recognized that something more than social action was called for. We needed economic development to sustain our communities that were coming under attack now that many had ventured to change their social condition. For example, in Tennessee in a four county area close to Memphis a number of Black farmers decided to register to vote. When they did, the fuel suppliers refused to sell them gasoline so they had to bootleg it. They were forced to drive into Memphis and bring back cans of gas in the back of their cars so they could plant their crops. So that's how they set up the first cooperative in the area, with the farmers selling each other gasoline.*

*What happened to those farmers in Tennessee who organized a cooperative to protect their economic well being was repeated all over the South.*

**Wendell Paris - First Director of the Federation of Southern Cooperatives Training & Research Center**



Members of the Freedom Quitting Bee in Alberta, Alabama

# Cooperative Marketing



## What are Farmer Cooperatives?\*

Cooperatives generally fall into the three major areas as do farmer cooperatives. Below are descriptions of these cooperatives. But it's important to note that many cooperatives do not fit solely and clearly into one category or the other as many cooperatives will provide many services to its members. The three general areas are:

- (1) Marketing,
- (2) Supply
- (3) Service

- **Marketing Cooperatives** perform a service for farmers following the farm production of an agricultural product. Some marketing cooperatives will also have cooperative marketing agreements. (Please see the appendix for a sample agreement.)

- **Supply Cooperatives** are organized and operated by farmers to supply them with something they require in their farming operations.

- **Service Cooperatives** might provide two advantages to farmers that individual farmers might not be able to afford on their own: (1) acquisition and use of equipment; (2) hiring experts who are technically trained. Service co-ops could include transportation, pest management, soil testing, animal testing, artificial insemination, irrigation, etc.

## Cooperative Marketing Agreement

Some marketing cooperatives utilize "Cooperative Marketing Agreements" which is an agreement between the

individual farmer member and the cooperative. Basically the farmer member agrees to sell to the co-op, the crops that have been decided upon. In this way the cooperative can project incoming crops and more easily project profit. Please see the sample Cooperative Marketing Agreement in the Appendix. All Marketing Cooperatives should consider implementing Marketing Agreements with their members.

## Ownership & Building Equity in Farmer Cooperatives

When farmer cooperatives are created it is necessary to have some capital to operate. (please refer to "How do Cooperatives Finance Operations?" on page 9). The concept of ownership is comparable to the principle of one-person-one-vote. All co-op members will have equal ownership in the co-op - no member will have more shares than any other member. Co-ops will often have in their bylaws that to be a member, it is necessary to purchase at least one share of common stock. The Board of Directors will determine the monetary value (i.e. \$1,000) of the common stock. The money from the shares of members provides investment and reserve capital. Some co-ops also authorize the sale of preferred stock to raise money for investment purposes. The preferred stock carries no vote and is generally limited in the return that can be paid in interest or dividends. This stock can be sold to both members and non-members.

In addition, many cooperatives will require a financial annual membership assessment. These funds can be used to help cover the co-op's overhead expenses. The annual assessment also helps to build equity for the co-op which can be used, for example, as down payments for co-op loans or for capital expenses.

Cooperatives are also exploring other creative ways of raising finances to support their business activities.

(\*James Barda - Agricultural Cooperative Development International)



## What is a Marketing Cooperative?\*

A marketing cooperative is a business organization owned by farmers to collectively sell their products. It allows producers to accomplish, collectively, functions they couldn't achieve on their own. Most agricultural producers have relatively little power or influence with large agribusinesses or food companies that purchase their commodities. Joining with other producers in a cooperative can give them greater power in the marketplace. In addition, cooperatives can give producers more control over their products as they make their way to consumers by allowing them to bypass one or more middlemen in the market channel. Farmers capture more of the returns that would otherwise go to others.



Sankofa Youth Market in Eutaw, Alabama

A Marketing Cooperative can be the most important part of a farmer's business. Like any cooperative, a marketing cooperative also has its bylaws.

Marketing cooperatives provide the opportunity for farmers to pool their products and by doing so enhance their bargaining power in the marketplace. When the farmer's market vegetables on their own, they are at the mercy of the buyer. The buyer will give the farmer the lowest price possible, which means greater profits for the buyer rather than for the farmers.

By joining together in a co-op, however, farmers have a way to market their vegetables and other crops at the highest price possible.

### The Process of Marketing Cooperatively

- Co-op members identify produce and/or livestock to provide for the pool in the coming year (this would be in the marketing agreement)
- Co-op members bring the produce and/or livestock to the loading/unloading facility
- The produce and/or livestock is sorted, etc. depending on the co-ops "value added" capability
- The co-op maintains records on produce and livestock from each co-op member
- Produce and/or livestock are sold, loaded and shipped

This means that the co-op can bargain for a better price because it has the strength of many farmers behind it.

Marketing co-ops also show the farmer new crops that they can grow year round. This can provide the farmer with a year round income.

Farmer marketing co-ops also provide members with seed fertilizer and their farm needs at considerable savings.

### Specific Financial and Market Access Advantages to Marketing Cooperatively

There are numerous advantages to marketing cooperatively. There are also financial advantages to marketing cooperatively however, and they are:

- Promoting production of a more uniform product
- Facilitating production aligned with the market needs
- Helping cooperatives organize more efficient resource combinations
- Promoting greater integration and less uncertainty
- Giving producers an advantage in securing credit
- Reducing transaction costs of co-ops doing business with farmers
- Lowering procurement assembly and delivery expenditures
- No soliciting costs
- Can offer forward contracts with quantity, quality and schedule
- Ensuring a market for members

\* USDA Rural Business Cooperatives Service, May 1998 - Marc Warman and Tracey L. Kennedy

## Benefits of Cooperative Marketing for Vegetable Farmers

There are a number of advantages to cooperative marketing in terms of collaborative efforts in marketing and production. These benefits were determined from discussion with co-op members in this research project. Below please find a listing of some of the advantages.

- Marketing opportunities can be expanded through cooperatives for major markets.
- Market volume can be enhanced both through individual cooperatives and in “cooperation” with other cooperatives to fulfill market demands.
- Insurance is necessary for cooperatives as well as for individual farmers, yet the coverage for the collective is more easily acquired through research to determine what’s need and the shared cost.
- Shared labor of cooperative members at markets is a major benefit of cooperatives as it lessens the time requirements of individual farmers.
- Decisions made from research and collective discussions are generally far superior to individual efforts as creative ideas and vast experiences are almost always available and shared in collective discussions.
- Crop acreage can be distributed among co-op members to fulfill market demands.
- Cooperatives provide opportunities for collective training and technical assistance on quality issues and market demands for quality.
- Cooperative members will often share labor contracts and/or information on labor availability
- A cooperative manager can help with research on prices and market trends
- Cooperative websites and broader outreach networks can be available through cooperatives.
- Contacts and customers between cooperative members can also be shared.
- Value added opportunities can be enhanced through cooperatives (i.e. packing sheds, farmer assistance).
- Co-op membership and “collective strength” can offer more clout in the market place, USDA and other agencies.
- Cooperative members can experiment on new crops through collaboration with other co-op members.
- There are opportunities for expanding markets regionally, nationally or statewide through collaborative efforts with other cooperatives.
- Cooperatives will often provides opportunities for members to purchase and share farm equipment.



Louisiana organic farmer Owuzu Bandele at market

# Marketing Cooperatives

## **Summary: Interviews with African American Cooperative Members on Cooperative Marketing**

*In 2004 and 2005, the Federation/LAF interviewed members of cooperatives in Georgia, Alabama and Mississippi to discuss the cooperative's marketing process. The following are (1) a summary of the interviews and (2) a narrative of the discussion with these cooperative members.*

### **Crop Production Decisions**

Decisions on crops are made from research and collective discussions. Crop production acreage is distributed among co-op members to fulfill market demands.

### **Quality of Produce**

Cooperatives provide opportunities for collective training and technical assistance on quality issues and a better understanding of market demands for quality.

### **Timing of Crop**

#### **Production**

Cooperatives will keep assessing the progress of the members' crop production and offer technical assistance for members when needed.

### **Record Keeping**

Cooperatives offer collective technical assistance on record keeping. With access to community organizations and the USDA agencies, most cooperatives are in a position to offer technical assistance.

### **Type of Markets**

Cooperatives are engaged in a variety of markets including direct markets, commercial markets and national/regional/local markets.

### **Labor**

Cooperative members will often share labor contracts and/or information on labor availability to benefit the cooperative.

### **Customers**

Contacts and customers from individual cooperative members are often shared with the cooperative as a whole to benefit the cooperative's marketing potential.

### **Price of Produce**

Cooperatives mostly determine how to price their produce by considering supermarket prices; to information from the Internet such as State Agriculture Pricing. A cooperative manager can help with this research.

### **Promotional Efforts**

Cooperative websites can offer an opportunity to more broadly promote the



Indian Springs Farmer's Cooperative member packing produce for market

market. There can be other outreach opportunities and networks available generally through participation within the cooperative community. Most of the cooperatives are exploring developing their own websites.

### **Adding Value**

Cooperatives can offer (or plan to offer) value added products through their collective efforts. Examples range from (1) washing; (2) sorting; (3) packaging; and (4) freezing the produce.

# Indian Springs Farmer's Cooperative

There are 42 members of the Mississippi Indian Springs Farmer's Cooperative of which 31 are active. The co-op was incorporated in 1981. Members of the co-op purchase shares (\$200) that are invested and members also pay annual membership dues (\$12). The majority of the co-op members are farmers, although some have now retired.

To fulfill its marketing goals and contracts, the co-op affiliates with at least four other cooperatives in the state.

The co-op owns a "state of the art" packing shed in Petal, Mississippi. It has a cooler, washing tubs, sorting tables and other equipment for processing the produce from co-op members.

### Spring and Winter Crops

The Spring crops grown by the co-op members include watermelon, squash, okra, bell peppers, peas, butter beans, cucumbers, sweet corn, arugula, spinach, lettuce mix, parsley, basil, and lemon grass.

The winter crops are collards, turnips, mustard, kale, and spinach.

### Deciding What to Grow

The cooperative members discuss the crops to be grown at the beginning of the crop year. Then, the individual farmers decide which crops they are interested in growing. The decisions are made based on how many acres the co-op wants and needs for a particular crop.

But then the farmers will decide what they want

to grow from that discussion depending, of course, on how many acres the co-op needs per crop and the individual co-op member's acreage availability.

*Some farmers will decide this year 'I want to make \$15,000 on my farm - that's my goal.' If I decide I want to make \$15,000 profit I need to decide what I need to plant to achieve that.*

**Ben Burkett, Farmer**  
**Indian Springs Farmers Association**

The co-op also plants crops based on what the members know they can sell. This is based on having done this for so many years and also on their market research.

One member said, "An important factor would be the land size of the particular farmer's acreage."



Some have plots that are smaller than the next farmer. Some people might have 1 acre, some might have a half acre, some might have 20 acres, or 75 acres. Then, the members plant what they think they can handle or what they can market. The land size does have a variable in that.”

Regarding the costs of production, harvesting and packaging, the individual co-op members will make their own decision and plant accordingly (Members pay 0.50 to keep produce in a container in the cooler for 7 days, 0.75 for a box if the member packages it - \$1.00 a box if the co-op sorts and packages).

The co-op, however, will make the decision what it can sell and how much it can sell. The co-op will also project the income for co-op members based on the crop production decisions.

### Market Research

The cooperative does some market research. It talks with vendors to seek new market outlets. Two new markets are the casinos and the school system. “We do have a marketing person here,” said one co-op member, “and we also use marketing staff at Alcorn State University to develop the marketing strategy for the season. We try to coordinate markets with other cooperatives in the state - so that if one co-op is not able to produce what it needs for a market, another co-op can help. We are constantly searching for new markets and new concepts of collaboration.”

### Markets & Transportation

The co-op markets its produce at “fresh markets” (direct markets) in New Orleans, Chicago, Memphis, Jackson (MS), and Boston.

The cooperative generally ships its produce in a co-op owned truck. There are usually two co-op drivers for long distances. For major shipments, however, say of watermelon to Boston, the co-op will lease or contract with a shipping service.

### Pricing of Products

The cooperative does a considerable amount of

research to determine the prices of its products by, for example, observing over the internet what the prices are at the farmer’s market in Thomasville, Georgia, and the departments of agriculture across the south. The cooperative members said that the pricing of the produce depends on “what the cost of production is, your labor costs and considering what the market price is. But you’ve got to stay in the market price range. So, what we sell fluctuates in price depending on the market where we sell.” The transportation costs are also included in the price.

The cooperative manager said that, “getting back to the prices...the Georgia farmer’s market in Thomasville, Georgia opens up every morning with new prices and we have a direct link to that internet



*Indian Springs Farmer's Cooperative's arugula*

service. In the Thomasville market those crops are bid on much like cattle - the buyers are there bidding on your produce and they open up almost like Wall Street. You have to figure out what you have in that crop - your expenses - if you can’t sell above your expenses you really have no business being in agriculture.”

The cooperative manager does a considerable amount of research on prices and he says he “relays that information back to co-op members. If some company calls for a shipment of peas, we already know whose got the largest volume of peas and we’ll call the individual co-op members and say ‘we need so many more bushels of peas to make the load to go to meet that demand.’ Supply and demand is what it’s about.”

“Supply and demand determines the price as well. With high supply, the prices are lower - low supply, the prices are higher. Consumer demand sets the stage.”

### Transportation Costs and Pricing

The cost of transportation and related expenses are placed in the selling price. “What we try to do, for example, is - bell peppers are 10 or 12 dollars to produce and we try to get \$14, \$15 at the market. For a case of watermelon, we pay \$1.50, \$2.00 a watermelon from a co-op member and we



try to get \$3.00 when we're taking it to Memphis, Tennessee or to Oxford, Mississippi markets. So you try to fill that cost in that price."

### **Best Markets for Immediate Return**

Some co-op members say that the direct markets offer the best immediate money. Businesses generally pay 45 or 60 days after the sale. Farmer's markets, they say, offer immediate gratification.

Commercial markets, however, are the primary markets for the co-op, such as the Alliance Food Service, A&P in New Orleans and Red Tomato in Boston. It also sells to some restaurants. Farmer's markets are its secondary markets.

### **Promotional Efforts**

The cooperative utilizes a number of methods for promoting its products, from branding, word-of-mouth, mailing information, and the co-op is also in the process of developing its own website for promotional purposes. Promotional efforts for the co-op also includes enhancing the presentation of products at the direct market.

One of the most important marketing concepts used by the co-op is the "branding" of its products by the use of its own logo that is placed on products.

Below are some of the comments from co-op members on their promotional activities.

"We use some literature about the co-op and word of mouth. For a lot of us we've been doing this for years and they (the customers) look forward to it and it's a chain thing - they keep looking for you and calling for you and if they don't see you they're looking for us at certain times of the year. Some people will ask us if we've got our watermelon planted yet. In New Orleans, we might have a customer asking to taste our watermelon and I'll just cut that one - the one they pointed to - and

I'll let them taste that one and they'll bring other people to our stand."

"In our co-op we also mail literature to company buyers and to some individuals."

"In our strategic marketing plan we have got something that we'll be following. We will purchase the nice little pretty baskets to have nice displays at the farmer's market. Because whatever your display looks like - that's what they think about you.



*Co-op members market collard greens in New Orleans*

Even if you have a poor display and a good crop sometimes they'll go to another table. I know one of our co-op members who sells lovely looking bell peppers, but the size, the quality, the quantity, and his display are so beautiful I would want to go in there, too. And he commands his own price."

### **Value Added Products**

"The value added cut greens will now go out with a logo on them saying Indian Springs Farmer's Cooperative. So these are some new advertisements that we will be using. We now have a new strategic plan developed that we will be implementing this year and we will use either radio or television to advertise - we have also sold some sweet potatoes and other things on the internet. So our advertisement through media has increased and we've had to do that to get new customers."

Another co-op member added, "From here to New Orleans, there's always a lady that's calling me and she wants her peas shelled with okra cut up in them - and she wants a tomato cut up in them as well. I know that the co-op doesn't do

that individual type of request yet, but I can do that for that customer. It helps the co-op. There are some customers who want their greens cut up and washed and we don't necessarily do that for all our crops, but I can do that for some customers because I know they'll always come back for more."

### Services to the Co-op Members

"At the shed, we sometimes store products for members, a lot of which they'll sell themselves - and then some we'll take and sell to other markets. This is a service for the members.

### Payments to Co-op Members

When produce leaves the co-op, each member fills out a form (3 copies) in order to track the produce. The co-op works on an honor system when members fill out their forms. The members take the white sheet with them and the pink one stays at the co-op and the yellow one goes into the co-op's office and that's how the co-op tracks the individual co-op members produce. The co-op members are generally paid in less than 30 days.

### Income Diversity

While the co-op encourages its members to sell their produce through the co-op (the co-op would like this to be 100%), some members do sell their crops individually. They, however, sell a low percentage of their crops individually.

### Advantages to Marketing Cooperatively with Comments from the Co-op's Marketing Manager

• *When one co-op member can bring his 20 boxes of bell peppers over, and another co-op member can bring his 20 bushels of peas over, whatever the case may be, we can market as a group. Then we command a better price on the market and can fill a large order at one time. (We can say to customers) 'Yes, we have it, we can deliver and this is the price we*



*expect to receive in return.' And then that comes back to the farmer and he gets his check - whether its a sale from to a commercial outlet or to a farmer's market. That kind of service commands a higher price.*

• *The main advantage is that you've got a lot of little folks pooling their produce to one big involvement.*

• *The packing shed has made a whole lot of difference because, before that, we used to wash the greens outside and then put them on the truck and it was very cold. We had to go Laurel, Mississippi to get ice.*

• *Now that we have the model for packing we've got to compete with today's market and being able to wash, grade and bag it and put our name on it helps considerably. We're now selling to restaurants and you can get good prices from them.*

• *The cooperative provides services that members wouldn't normally have as an individual. Like being able to purchase equipment of the magnitude we have at Indian Springs. When you get large quantities sometimes you need to store it for several days before you can get it to market or until you can get enough volume out of that field to take to market. So that's one of the advantages of marketing cooperatively.*

• *The cooperative members can also help with and share their time at direct markets rather than having this responsibility fall onto an individual.*

• *The co-op is also able to command a better price as a collective unit compared to an individual.*

# Browntown Farmer's Cooperative

The Browntown Farmer's Cooperative in Alabama has 52 members. All are landowners and many are living on heir property. The co-op is newly created. The joining fee of the cooperative is \$1,000 and the co-op members have been given 3 years to pay. The monies are being place in a bank to help develop the cooperative. The co-op plans to hire a marketing manager to seek commercial markets.

Being a new cooperative, the members are exploring how they want to enhance their marketing, what equipment they want to purchase, and what sort of value added products they want to offer their customers.

The co-op members are growing an abundance of crops including tomatoes, peas, blackbeans, squash, cucumbers, cantaloupe, watermelon, butterbeans, sweet corn. "We don't miss anything. Some of us have some of all of that."

The cooperative members decide what crops to grow by watching the market "each year to see how it goes and just see what we can get the most profit out of."

### Crop Decisions

The decision on what crops to grow also "depends on labor - how your family is - and how much labor you have."

One farmer said, regarding the need to plan crop production, "We need a market to sell our stuff - we can raise a lot ...but we don't plant a lot of stuff if we've got no place to market."

Another farmer commented about how the markets can change. He said "Each year we might change - a product might be red hot this year and next year it might be slow."

The co-op members will grow and sell some of their crops individually and some together as a co-op. Watermelons and peas are the main crops that they sell cooperatively.

### Markets

One of the primary reasons the farmers decided to form a cooperative was because of changing marketing conditions. Buyers in some major chains are apparently not wanting to process an abundance of individual farmer sales. One farmer said, "I've been marketing to Winn Dixie for 40 or 50 years. And then we lost that market last year. They changed and turned it all around. We were selling watermelon, peas and squash to them. We're going to talk with them about this cooperative and see if we can change their minds."

Regarding the Winn Dixie market, another said, "All of us have been selling to Winn Dixie. One time someone at Winn Dixie said that if we merged together and all of us sold to them as a group they would like that better. The Winn Dixie sales people said that if they write up a lot of individual farmers, it was too much. But if we bring crops together then

they would only have only one co-op to write up."

The co-op members individually sell their produce at the local farmer's markets and they also tailgate.

The co-op members shared some of their

plans for enhancing their marketing. They said, "What we are going to do now is to get our co-op and pool together and sell together. We intend to get a shed and then we can promote out of town and others can buy our produce. By us going together we'll have more produce and we believe we can sell better and more. In the past we've been growing produce and just hoping someone will come and buy it. I understand now we can sell more by being together and getting on the internet."

### Market Profits

The co-op members described the differences in types of markets in terms of possible profits. "Winn Dixie," said one farmer, "has their own price and they change it every day. It's based on the commodity prices. Winn Dixie always pays more than the tailgating markets."



Another farmer didn't necessarily agree that Winn Dixie always offers a better price, but that selling in bulk has its advantages. He said, "The way Winn Dixie does it is they'll pay you a certain price and they'll do that when the prices go up or down. Sometimes you can do better at the farmer's market. But Winn Dixie is going to buy a lot of your produce and they'll do it all the time. That's what's really good - you can sell all of your produce."

### Brokers

One of the ways that the cooperative members sell their produce is through brokers. They said, "We often have a lot of trucks coming in from different brokers that ship up to North Carolina and to Canada. We have a brokers coming in and buying watermelon and they'll buy an 18 wheeler or more of watermelon and that's how we sell most of our watermelons."

When asked if they could get a good price from the brokers one farmer said, "Yes, a pretty good price. We get about \$2.50 for our watermelons from Winn Dixie and if we sell it to the broker we might get \$2.75."

One of the ways that the cooperative members sell their produce is through brokers. They said, *"Then we have a lot of trucks coming in from different brokers shipping up to North Carolina and to Canada. We have a brokers coming in and buying watermelon and they'll buy an 18 wheeler or more of watermelon and that's how we sell most of our watermelons."*

### Labor

The cooperative members said that labor is a problem and often the size of the family is a factor.

"Some people have big families," said one farmer. "Some people have small families. (But) there are not too many family members wanting to do field work (anymore)."

Another said, "There used to be a lot (of family members working in the field). There used to be 70 or 80 of them. But, I don't know what happened. You go by a house now and you've got 10 in there and they poke their head out and say 'we're not going into the field today.'"

This means that the farmers need to find outside labor. One farmer commented, "You just go around the community looking for labor. Latino labor is around, but usually other farmers already have them under contract."

### Value Added Products

The co-op members have begun to think in terms of adding value to their products to increase their revenues. One said, "I think we can sell directly to a lot of people but, you know the beans - they'll only hold up so long. You've got to have some place for them to stay cool. That's our problem. We need a cooler."

Another farmer noted that "When we were selling peas to Winn Dixie they wanted them shelled. So what we need to do to get back into the pea business is that we need a cooler and to shell our peas. If we do that hopefully they'll start taking peas back from us."

Presently the cooperative members have been washing some of their produce at home in large vats. They do not yet have a central cooperative facility, but plan to have one sometime in the future along with a cooler.

### Advice to Young Farmers

Regarding advice to young farmers, the co-op members acknowledged that farming is difficult and land is not as available as it once was. They said:

"What I would say is that if you don't have the land and financing don't worry with farming."

"Most people want you to give \$75 an acre to rent land - how are going to rent land and fertilizer and fuel and come out positively?"

"If you love farming, go for it. But if you don't love it, don't go for it because you'll get hurt. You've got to love farming to do it...and you've got three months to wait for any money. Young people aren't going to do that. They want their money every week or every 2 weeks"

"But I would also say 'don't mortgage your land or your house too far.'"

## Flint River Farmer's Cooperative

There are 15 members of the Flint River Farmer's Cooperative in southwest Georgia and the average acreage farmed per co-op member is 350 acres. Of the 15 members, 10 are farming - some have retired. Many lease land from other land owners to farm. The cooperative is about 30 years old and continues to evolve.

The cooperative owns a building in southwest Georgia that is located on a busy and assessable road. It has, over the years, managed to acquire a cooler, sorting tables, washing tubs and a cutting machine for their greens.

### Crops Grown and Marketed

The cooperative members grow a diversity of crops. One said, "The way our co-op is set up, we sell produce such as peas and different types of greens, squash, cucumbers, pepper." Another said, "We already have a market for our peanuts, corn and cotton - the co-op doesn't help in the marketing of the row crops."

"This summer we'll be growing peas and some greens. In the summer we have a lot of heat pressure and you can't grow a whole lot because you have to keep it watered every three or four days to keep it looking alive. If you don't water it in July or August, especially, the heat will make your crops wilt down and you won't have your produce so you have to plant three or 4 acres at a time to keep it rotating in the summer in order to keep it watered so it will look real good."



Another farmer discussed the possibility of how the co-op could assist with marketing commodities. "We've talked about the co-op helping with marketing commodity crops and that would be good - not only marketing the commodity crops with this co-op's members, but if we could get other farmers in the surrounding counties. We have thought about having one location where we could deliver our peanuts. It would be good if we could come across a grant to put in a storage area - a floor and a warehouse. It's a matter of going through the FSA anyway - so it's a matter of having a storage facility

to store your peanuts. It's something that can be done, but we've just got to do a little more legwork - and that would generate money back to the farmer. If we have our own buying point where you have your scales and your dryers

and you have government people coming in and grading them and advising on what you do - I think it's 45 or 55 dollars a ton - and that could go back to the farmer - at least half of it. It would benefit the farmers and the co-op as well."

"I used to be a member of a co-op where the co-op bought the peanuts or the co-op made arrangements with the buying point and we would get all the money back. It can be done."

### Making Decisions about Crops

The co-op members discussed how they make decisions about what crops to grow and how the farmer members will plant as a team to ensure crops throughout the year.



“Well, first of all we sit down and discuss what we want to grow. And then each of us grows a portion of, say, collard greens. If we decide to grow 10 or 20 acres of collards greens, each individual will grow a certain amount of acres. Like, I might grow one acre and then two or three weeks later another farmer might grow an acre and then we pass it around. That way it won’t all be ready at the same time and we can have produce year round. That’s the same way we grow the peas. We rotate.”

Another important decision co-op members need to make is the volume of crops grown. One member said, “We’ll know what crops to grow, but you don’t always know what volume to grow so we do get out and test the market - or we have some general idea what’s needed to support whatever market we have.”

“We will consider the school system, for example, and realize that they’re only going to serve greens once a week - one particular green a week. So if they are going to take 75 pounds a week, with the number of kids they have, that’s easy to determine. If they have 10 schools and we know the number of kids they have, that’s how we determine what volume is needed for the school system. Restaurants and other places already have a set amount that they are going to buy anyway - whether it’s fresh, frozen or whatever. So there’s really not a lot of research that’s needed.”

“In the school system they know how many students they have. They know how many greens it will take to feed 1,000 or 2,000 students and they tell us. For example, last week we sold 75 pounds of collards to the school. That’s what they wanted for the one day.”

**Farmer’s Market**

The cooperative has created it’s own farmer’s market in its own building and they describe how it works.

“We sell to the public. People that walk into our cooperative - we have collard greens or peppers

and other vegetables. In other words, we process and also ‘sell’ fresh vegetables.”

“The farmer’s market used to be down the road, but then we bought this building and renovated it and we have the market in our own building now.”

“We probably won’t open the Farmer’s Market until around the 20th of May because we won’t open it up until we have fresh produce coming out of the field. We could buy some items but we want to sell our own produce.”

“We will sell okra, peas, greens, cucumber, squash, peppers, apples, oranges and bananas. We’ll buy the apples, oranges and bananas from the farmer’s markets at Moultrie or Cordele and also down in Thomasville. Wherever we can get good quality stuff, that’s what we’ll get and then sell it at our own market.”

“We’ll try to keep the market open on Friday and Saturday - but we’re also interested in having a WIC market here. The WIC market would run from June to September. We’ll have to have it open four half days a week. If that materializes that will be good. We’ll have to have someone here from 9AM to 2PM or something like that. We’ll have to hire somebody for that.”

What was also important was how the cooperative can offer produce for sale throughout the year and also make sure that the produce is not wasted. “And what we can’t sell,” commented one member, “we have a freezer so we can store the produce and sell throughout the year. And that’s what we plan to do with a lot of the vegetables is to cut them up and freeze them.”

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**School Markets**

The school market sales are important for the co-op, but there are times depending on weather and other factors that it’s been hard to fulfill. “Last year when school opened up in August, we had a list of a variety of vegetables that we were supposed to have ready for the school system, but we didn’t

have the crops. Last year was such a bad year with the watermelon and crops were kind of on the low side and all the money that farmers had was depleted - but we did maintain greens so we started delivering them this year.”

### **Promoting your Farmer’s market**

The promotion of the markets included both the assistance of co-op members as well as its supporters. “At first we had fliers and talked it up - each one of the members had areas and churches they were supposed to go to “talk it up” about what we’re doing and what we have here to sell. We take fliers to churches, stores, and meetings that are going on.”

“Some of our friends help to distribute information about our markets also, and that has helped.”

### **Pricing of Products**

One co-op member mentioned that, regarding pricing, they look at the wholesale prices and retail prices of products to then determine their prices. He said, “You have your wholesale price, like from the Moultry market and a supply sheet that comes from the Department of Agriculture each week - it’s on the web. You get that wholesale price and then you put your retail price on it. The retail price can fluctuate because we don’t want to over-price - we had rather set it on a low scale. So we kind of get things at a level that everyone is used to paying so that we can make a profit and that the consumer is satisfied.”

### **Adding Value**

The cooperative members mentioned the advantages of adding value to their products by utilizing the equipment they have for cutting and preparing their produce. They also recognized the

trends of customers to want to purchase products that are already prepared and easier to cook, such as shelled peas. They said, “What we do with our greens now is that we process them (shred and package them). We sell them to restaurants. We started doing the greens last month when we got our equipment.”

“A lot of the younger people don’t like to do what the older people have done. The older folks would come to the farmer’s market and get the peas and go home and shell them and all that - younger people don’t want to do that. So we’re making these things available for them. If you want peas, you can call and we’ll have them ready for you - your peas will be shelled, washed, bagged. All you have to do is pick up the peas here and go home and cook them.”

“But we’ve noticed that a lot of people today want fresh good vegetables out of the field. A lot of



*Cornelius Key, Georgia farmer and Flint River Co-op member*

people are getting away from frozen foods and we’re not going to put anything on the produce (such as chemicals) that we’re not supposed to.”

### **Expanding Customer Base and Markets**

The cooperative members mentioned a

number of ways to expand their customer base and markets such as advertising more, always offering quality products, seeking more commercial markets, and seeking markets where their products could be sold in bulk. The comments were as follows:

“We’re always trying to figure out how to get more customers. Growing something is the easy part - the hardest part is marketing. The only thing you can do is advertise more.”

“I think if you deliver and sell good fresh produce

and have a customer come in and buy some they'll tell a neighbor - but if you sell bad products, believe me, the word will get out that you sell bad products, too. You have to make sure that your products are good and fresh."

"We also want to get more schools to purchase from us - more restaurants to purchase from us."

"It would be good if we have a market where we can sell 5,000 pounds at one place or 2,000 pounds of peas at one place. But we don't have a place that would buy that kind of volume - over time, yes - but not at one time. But we have to go with what we have. We are set up to do small quantities every day, rather than a large amount at one time. We don't have the kind of facility to do a large quantity. We're consistent, but we're on a small scale."

### **Experimenting with Crop Production**

One of the advantages of cooperatives is that they can provide the opportunity to experiment with crop production on a collective basis. Here's how this experiment was described.

"We did what was really different for a co-op - we got together as members, rented 87 acres of land and grew the watermelon ourselves on the rented land for the co-op. The individual members paid money to lease the land and only a few of us worked on the project - 3 of us actually - plus we also grew peanuts and corn."

"We wanted to do something different and it worked better because we had everything at the same location. You can manage it better - you can do more of the right things because it's all in one place."

"The money we made from the project was invested into the co-op. We remodeled the co-op building and bought other equipment with that money."

### **Expectations of the Cooperative Experience**

The cooperative members mentioned that they recognized how important it is to work together toward the common good of the cooperative, to strengthen it and expand the opportunities for more revenues for the cooperative itself, and for the individual members. Below are their comments.

"Believe me it was hard at the beginning. All the work we've done is not easy and we hope in the future we will establish a good farmer's market and a good co-op and also hopefully generate proceeds for ourselves, too. That's why I'm working so hard in the co-op to make it a successful business."



*Harvesting Georgia watermelon for market*

"We want to generate some money for ourselves - for all of us in the co-op. But the main thing is to be able to succeed. It's so hard for Black farmers and Black co-ops to succeed, and we are determined to make this work and so far I think we're doing a good job. I can pat myself on the back. We want the co-op to be able to stand on its own."

"I hope in the co-op we can learn to better work together. It's sometimes hard for us to get farmers together and support what we're doing. But we're doing what we need to do. The other thing

is that I'm glad we can get to the point that we can market our product together. I'm glad we're doing things here that would benefit each of us as far as being able to sell what we have... to get a decent price for what we have...and also to do the processing... and just be diversified in what we're doing. The disadvantage is trying to start off and not having any money - that's bad. If we can overcome that we are ready to go. We have a structure now for our co-op that will benefit the co-op and the farmers. We're constantly moving right now."

# Co-op Marketing Plans

## Introduction

Developing a marketing plan for a cooperative is essential. It includes many of the same components of a marketing plan for an individual farmer such as knowledge of local production and marketing activities; production and promotional strategies; product objectives and strategies (i.e. type of crops, value added components); pricing; sales and profit projections; evaluations and review.

The cooperative plan, however, requires in-depth discussion with cooperative members. **What profit does the cooperative want to make this year?** Discussions need to take place on (1) crop production issues; (2) pricing and market outlets, (3) promotion. Then write the decisions into a marketing plan and distribute the plan to all co-op members. Here are some sample questions:

### Production:

- What crops will individual farmer co-op members grow?
- How many acres of crops will be produced?

- What bulk seeds and other supplies should be considered this year to save on variable costs?
- What labor is available and can be shared by the farmer members - both field labor and at the farmer's market?

### Pricing and Market Outlets

- What are the projected market outlets for the crops?
- What customer base is available or has been added from the previous year?
- What additional value added components need to be added this year (i.e. more frozen or chopped vegetables)?
- What should be the prices for the crops this year? Has the co-op done the necessary research on this?
- What possible contracts are available with commercial companies? What companies have been contacted already? What worked last year?

### Promotions

- What promotions should be used to contact the customers (i.e. website, phone calls, mailing, fliers) and when should the promotion begin - what is the schedule?

## The Ideal Marketing Cooperative

The following description of the "Ideal Marketing Cooperative" was developed thanks to discussions with farmer Ben Burkett of the Indian Springs Farmer's Cooperative in Mississippi.

(1) The Ideal Marketing Cooperative will have 90% (or better) of its members and Board of Directors involved in the following ways: decision making; production issues; the Board of Directors will meet monthly; the membership will meet quarterly; members will have paid their shares.

(2) The co-op will have a nice packing and grading facility in a central location - close to a major highway if possible.

(3) There will be at least one and a half paid management staff.

(4) The co-op will have a computerized record keeping system.

(5) The market for the co-op's production will be planned at least one year in advance.

(6) Research on marketing trends will have been completed one year in advance. The determination of the crops to be grown will be based on the market research.

(7) Members collectively will decide the acreage of produce to be grown per member with the assistance and advice of the manager.

(8) The cooperative will have adequate operating funds: to pay farmers after delivery to the buyer; for upkeep of facilities; to pay management.

(9) There will be low liabilities and high net worth.

(10) The co-op will be able to deposit 5% of its gross sales into an equitable fund for future development.

(11) Most important.... the cooperative will be so successful that it will attract young farmer members. They will be knocking at the door!

## Promotion: How and what will we communicate to our buyers or customers?\*

Promotion is a must if you are going to gain product recognition among customers. Promotional strategies often are built around a “message.” The message that you deliver about your product or business is just as important as the product itself. Equally important is how and when you deliver that message through the use of advertising tools and media.

Before beginning detailed promotions research, think about an over all strategy approach. Will you concentrate on your business image, the product, or both (total approach)?

Businesses use brand image advertising to build awareness and interest in their products. **A brand is represented by a name, term, sign, symbol, design or some combination.** A brand or logo is used to identify the products of your business and to distinguish them from other competitors. Although the establishment of a brand can be expensive, particularly for small businesses, many of today’s alternative farm businesses are concentrating their promotional efforts on image advertising - promoting the concept of “healthy: or “locally produced” or “eco-friendly” products....

Product advertising aims to create immediate sales through some type of special product offer, such as seasonal discounts, frequent buyer clubs, and in-store samples. For instance, (some groups use) a three pronged product strategy to: (1) Make use of excess products by distributing them as advertising samples - “we will give it to customers who can use it. They will repay us many times over in ‘word of mouth’ advertising”; (2) Give our customers dis-



*Branding or a logo or name helps identify your product. Here is a logo for SOCO (Southern Cooperatives) that is placed on every watermelon leaving the co-op in south Georgia.*

counts for bringing in other customers or distributing (the farmer’s) literature, etc....Give those who organize group orders a bonus; and ((3) Reward loyal customers with extra services that will help them succeed.

Product promotion aims to increase sales directly and immediately....Here are several low-cost product promotion alternatives.

- Coupons and rebates
- Tasting and cooking demonstrations
- Frequent buyer clubs
- Publicity
- Samples
- Recipes

While most small businesses opt for product advertising because it offers more immediate returns, marketing consultant Barbara Findlay Schenck recommends combining both image and product promotion strategies. She calls this promotional strategy “total approach” advertising. Total approach advertising offers direct farm marketers a chance to build a long-term image of their business and its value while encouraging timely product purchases.

\* “Building a Sustainable Business” Minnesota Institute for Sustainable Agriculture (2003) and “Marketing” Kurtz and Boone (1981)



## Pricing and Profitability

The pricing of products is probably the most important part of any marketing plan and strategy. The “Break-even Analysis” is extremely helpful in making decisions about pricing.

### Break-Even Analysis: A Note to Co-ops

With the break even analysis below it's possible to try different experiments with prices on paper. Co-ops can include the price for its products to decide how much revenue it will make. Then it can subtract its variable and fixed costs to see what the profit will be.

Once co-op members see this on paper the co-op might want to change its prices. But it's found that once co-op members see all this written down, they can more easily understand how to better manage their costs so that they can earn a higher profit.

The break-even point refers to the price and quantity of what the co-op needs to sell in order to cover all costs. At this price and sales level, it won't be losing money. When the co-

op follows the formula below it should end up with “zero” because its sales should equal its costs.

Once the co-op knows the break-even point, it can figure out how much profit it wants. It can do this by either thinking about raising the prices if possible; adding value to its products by, for example, packaging or washing; trying to reduce some of its other variable costs; and so forth.

If the co-op looks at this formula on paper, then it can better control its finances and set its goals. This important activity should be included as part of its marketing plan before co-op members place a seed in the ground.

## Deciding on Profit

Some farmers will determine their fixed costs (mortgage notes, car payments, etc.) and how much profit they need for investment before planting and then:

- (1) Decide on their enterprise (what crops to grow, head of cattle to sell, etc.) and;
- (2) The prices they think the market will bear to achieve their goals.

### Break-Even Formula

Here is the formula to determine your “break-even” point.

$$\text{Sales} = \text{Cost}$$

### Break-even Calculation

$$\begin{aligned} \text{Sales Price} \times \text{Quantity Sold} &= \text{Revenues} \\ (\text{minus}) \text{ Variable Costs per unit} \times \text{Quantity Sold} & \\ &= \text{Contribution Margin} \\ (\text{minus}) \text{ Fixed Costs} & \\ &= \text{Zero} \end{aligned}$$

### Contribution Margin

The contribution margin is what revenues will go toward covering the fixed costs. This concept is useful because it is often very difficult to decide what part of fixed costs can be assigned to a particular item. Rather than trying to figure out that your okra crop amounts to 5% of the cost of your tractor, you can figure out which items contribute the most and plan to earn as much as possible.

## Differentiated Producer Pricing Strategies\*

**Competitive Pricing:** Competitive pricing strategies are common among large manufacturers and are aimed at undermining competition. Predatory pricing, where a company sets its price below cost to force its competitors out of the market, is a typical competitive pricing strategy. Although these strategies may work well for large commercial companies, they are not recommended for small scale, independent businesses. Price wars are not easily won. That said, the food industry is considered a “mature” marketplace and your ability to compete on the basis of price may be very important (29) . There are several well-capitalized players, even in the organic market, offering similar services.

**Cost Oriented Pricing:** The cost oriented pricing strategy is probably the most straightforward. Based on your production costs, you and your planning team make a subjective decision about whether to price your product at 10 percent, 50 percent, or 100 percent above current costs. Of course, you will need to conduct marketing research to determine whether or not your customers are willing to pay the cost-plus price that you have established.

**Flexible or variable pricing:** Flexible pricing strategies involve setting a range of prices for your product. Flexible pricing is common when individual bargaining takes place. The prices that you set may vary according to the individual buyer time of year, or time of day For instance, farmers who sell perishable fruits, vegetables and herbs at farmers’ markets often establish their price for their products in early morning and by day-end are willing to lower their prices to move any excess product.

**Penetration or promotional pricing:** A penetration pricing strategy involves initially setting your product price below your intended long-term price to help penetrate the market. The advantage of penetration pricing is that it will not attract competition. Before pursuing a penetration pricing strategy, you should thoroughly reach prevailing market prices and crunch some numbers to determine just

how long you can sustain a below-cost penetration price. Penetration or promotional pricing usually takes place at the retail level when marketing direct to your product’s final consumers.

**Product line pricing:** If you plan to market a line of products, you might consider a product line pricing strategy where a limited range of prices is established for all of the products that you will offer. For instance, if you envision marketing to low-income customers, then your price line or price range must be based on “affordability.” In this case, you might establish an upper limit or ceiling for prices so that your price line is bounded by your production costs on one end and affordable ceiling on the other end.

**Relative pricing:** Relative pricing strategies involve setting your price above, below or at the prevailing market price. Clearly, this strategy requires that you research the prevailing market price for your product.

**Skimming or skim pricing:** The price skimming strategy is based on the idea that you can set a high market entry to recover costs quickly (to “skim the cream off the top”) before lowering your price to what you intend at the long-term price. This pricing strategy is possible only when you have few or no competitors. The primary disadvantage of the skimming strategy is that it attracts competition. Once competitors enter the market you may be forced to match their lower prices.

**Contract pricing for specialty commodities:** Contracts for specialty commodities vary dramatically in terms of the price paid, payment conditions, grower responsibilities, storage and shipping arrangements. The advantage of pricing on contract is that you know in advance what price will be paid for the commodity, Be aware, however, that when producing a specialty variety crop or when employing a new production management system, your yield and output risk increases as does your exposure to quality discounts. Use a contract checklist if you are considering this method of pricing for specialty crops or livestock.

\* “Building a Sustainable Business” Minnesota Institute for Sustainable Agriculture (2003) and “Marketing” Kurtz and Boone (1981)

## Pricing and Research

### Cost-plus Pricing

Once variable costs are figured per item produced, some cooperatives will use a cost-plus pricing which is to:

- Add a percentage of unit cost to set the price
- *The percentage added should be enough to cover fixed costs*

- **A 40% markup is the average for direct marketers**

### Cost-plus Comparisons for Direct Marketers, Wholesalers & Retailers

- Direct Marketers usually markup 40%
- Wholesalers usually markup 50%
- Retailers will often markup as much as 100%

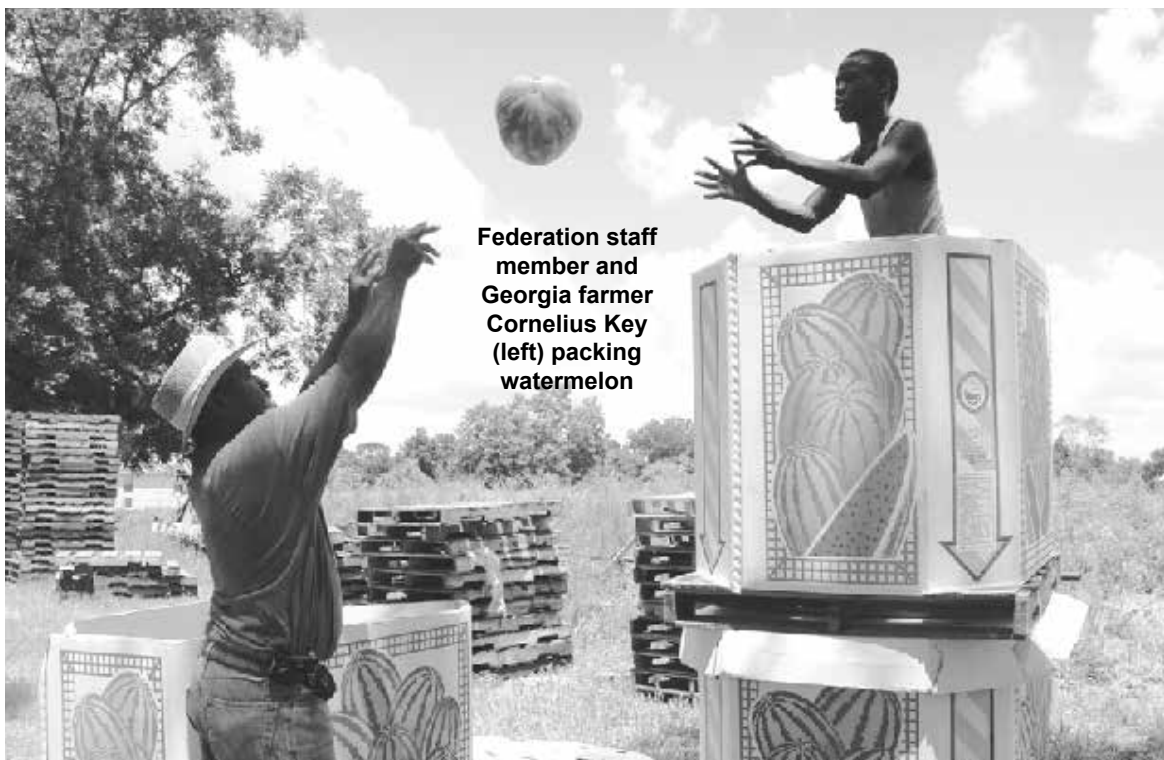
### Researching Prices

- For retail prices
  - *Grocery stores*
  - *Farmer's market competitors*
  - *Other farmers*
- For wholesale/commodity prices
  - *State or USDA website/on-line services*

### **Common Pricing Mistakes \***

Marketing author Michael O'Donnell outlines the following common "mistakes" to be aware of when building a market price strategy.

1. Pricing too high relative to customers' existing value perceptions: prices not in line with target market needs, desires or ability to pay.
2. Failing to adjust prices from one area to another based upon fluctuating costs and the customer's willingness and ability to pay from one market to another.
3. Attempting to compete on price alone (note: There's a need to often be flexible with pricing depending on the area where the marketing is taking place..)
4. Failing to test different price levels on customers, from one area or market to another.



Federation staff member and Georgia farmer Cornelius Key (left) packing watermelon

# APPENDIX

## Choosing The Cooperative's Board Of Directors

### Considerations for Choosing Members of Board of Director

The operations of the cooperative are directed by the Board of Directors.

- The Board of Directors is elected by the membership.
- The Board of Directors is responsible to the membership.
- The powers of the Board are set by law, by the Articles of Incorporation of the cooperative and the bylaws of the cooperative.
- Members of the cooperative do not act directly on business matters of the cooperative.
- The members cannot control the reasonable actions of the Board members if they are performing their duties in a reasonable manner.

### Questions For Discussion By Members Of Board Of Directors

*The governing body of a cooperative is the Board of Directors. Knowing how to choose a board is an essential process. This section will address that issue.*

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Federation/LAF Board Member Mattie Mack at Federation/LAF Annual meeting



- What are the objectives of your cooperative?
- What are the short term plans for your business venture?
- What long range plans have your board of directors been working toward?
- What actions do you take as a member of the Board of Directors to ensure that the cooperative is operating legally?
- What actions have you taken to insure the security of membership property including facilities, money in the bank, and merchandise?
- How does your Board of Directors determine when and if staff should be hired to carry out some of the work of the cooperative?
- Why do you have Board members bonded as well as staff?
- How many committees does your cooperative have and what are there functions?
- What process does your cooperative use to determine the operating budget for your cooperative?
- How does the cooperative finance its operations?
- What bookkeeping procedures do you use at your cooperative to ensure that all money is properly accounted for?
- What steps does your Board of Directors take to ensure membership participation in all facets of the operation of the cooperative?
- Are there any meetings of the Board of Directors that any members of the cooperative cannot attend?
- What steps does your Board of Directors take to make sure that all the members of the cooperative are well informed about all phases of the business operations of the cooperative?
- Has your cooperative had any experiences that you would like to share with others to keep them from making some of the same mistakes that your Board of Directors made in the past?

- Have the mistakes that your Board of Directors made served as learning tool and a guide to future decision making?

## **The Duties And Responsibilities of the Cooperative Board of Directors**

### **Objectives**

- A sound and efficient business.
- Goods and services that maximize benefits to members and patrons.
- Membership control of business.
- Promoting the business and increasing membership
- Cooperative development and establishing the cooperative ideal through community activities and cooperation with other cooperatives.

### **Principles**

- *Efficient and attractive facilities*
- *High standards of honesty, friendliness and courtesy*
- *Fair and just employment conditions*
- *A sound capital structure*

### **Promoting Interests of Members**

- *Member Participation in Cooperative Activities*
- *Member participation in developing policies*
- *Member understanding of cooperative principles*
- *Member understanding of the cooperative's operations*
- *Participation in community-building activities*
- *Public understanding of cooperative values and goals*

## **Serving on the Cooperative's Board of Directors**

### **Considerations**

- When serving as a Board member, you must conform to the law.
- The law will not hold you liable for errors of judgment.
- The law will hold you liable for damage that results from your negligence.
- You should always exercise due care in discharging your duties.
- You should not make a personal profit from your activity as a member of the Board of Directors.
- As a member of the Board of Directors, you must always avoid any conflict of interest.

- You must abstain from voting on any matter in which you have a personal interest.

- The Board of Directors should seek competent professional advice if a reasonably prudent man would do so in a similar situation.

## **Qualifications of Board Members**

- If self-employed, the board member manages his own business well.
- The board member exercises good business judgement, as well as makes sober and sound decisions.
- A member's educational background and schooling are sufficient to perform his duties and responsibilities.
- The members is willing to work as a director, usually for long hours, and without compensation if it is for a non-profit or charitable organization.
- The board member works well with others and is a good team player.
- The member thinks for her/himself, and gives the group the benefit of her/his advice though the majority may disagree with that opinion.
- The member is loyal to the cooperative association, and seeks no personal advantage.
- The member is a leader in the community, and possesses leadership qualities.
- The board member will make a significant contribution to the cooperative association.

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Federation/LAF Mississippi staff Kim Crisler assisting a farmer



# **SAMPLE COOPERATIVE BYLAWS**

## **MISSISSIPPI ABC FARMER'S COOPERATIVES**

### **ARTICLE I. MEMBERSHIP**

**Section 1. Qualifications.** Any person, firm, partnership, corporation or association, who is a bona fide producer (as hereinafter defined) of agricultural products in the territory in which the Cooperative is engaged in business, and who agrees to be a patron of the Cooperative, purchases one share of Common Stock, and meets such other conditions as may be prescribed by the Board of Directors, may become a member of the Cooperative. All applications for membership must be approved by the Board of Directors. Member status is effective as of the time the Board approves the application for membership.

**Section 2. Suspension or Termination.** In the event the Board of Directors of the Cooperative shall find, following a hearing, that any of the common stock of the Cooperative has come into the hands of any person who is not eligible for membership, or that the holder thereof has ceased to be an eligible member, or violated the Articles of Incorporation, Bylaws, or agreements made with the Cooperative, the Cooperative may suspend such holder's rights as a member and terminate the membership.

When a membership is terminated, the Cooperative shall repurchase the member's share of common stock for par value. The holder shall return to the Cooperative the certificate evidencing the holder's share of stock. If such holder fails to deliver the certificate, the Cooperative may cancel such certificate on its books and records, and the certificate shall become null and void.

A suspended or terminated member shall have no rights or privileges on account of any stock held, nor vote or voice in the management or affairs of the Cooperative other than the right to participate in accordance with law in case of dissolution.

### **ARTICLE II. MARKETING CONTRACT**

**Section 1.** A marketing contract or agreement shall be prepared by the Cooperative and will be executed between the Cooperative and each of its members. The marketing contract shall be adopted by the Board of Directors and upon adoption shall become the marketing contract of the Cooperative, a copy of which shall be placed with the minutes of the Board meeting at which said marketing contract is adopted.

**Section 2.** It shall be the duty of all members of the Cooperative and they hereby agree to market such percentage of their agricultural products as shall be fixed by the Board of Directors from time to time and reflected in the respective marketing contracts between the Cooperative and each member.

### **ARTICLE III. STOCK CERTIFICATES**

**Section 1. Common Stock.** Common Stock shall have a conspicuously placed notice printed on its face referring to restrictions against the transfer of such stock stated on the reverse side thereof, which shall read as follows:

"The Common Stock of the Cooperative may be purchased, owned, or held only by producers (1) who patronize the Cooperative in accordance with the terms of their marketing contracts in effect, and (2) who have been approved by the Board of Directors. "Producer" shall mean and include persons (natural or corporate) engaged in the production or processing of fruit and/or vegetable produce or other agricultural products, and cooperative associations (corporate or otherwise) of such producers."

Each member shall hold only one share of common stock and each eligible holder of common stock shall be entitled to only one vote in any meeting of the stockholders upon each matter submitted to vote at a meeting of the stockholders. In the event the Board of Directors of the Cooperative shall find, following a hearing, that any of the common stock of the Cooperative has come into the hands of any person who is not eligible for membership, or that such holder thereof has ceased to be an eligible member, or that such holder has not, for a period of five (5) years, marketed through the Cooperative the products covered by a marketing contract or contracts with it or has not otherwise patronized the Cooperative, such holder shall have no rights or privileges on account of such stock, or vote or voice in the management or affairs of the Cooperative other than the right to participate in accordance with law in case of dissolution. The Cooperative shall have the right, at its option, (a) to purchase such stock for book value; (b) to require the transfer of any such stock for book value to any person eligible to hold it; or (c) to require such holder of any such stock to convert it into shares of preferred stock of equal value.



In exercising its right to purchase or to require the transfer or conversion of common stock into preferred stock if such holder fails to deliver the certificate evidencing the stock, the Cooperative may cancel such certificate on its books and issue new certificate of common or preferred stock, be, to the party entitled thereto.

**Section 2. Preferred Stock.** The preferred stock of the Cooperative may be issued to any person, association, co-partnership, corporation or other organization, in series. It shall carry no voting rights. Non-cumulative dividends not to exceed eight percent (8%) per annum may be paid on preferred stock, when, if and as declared by the Board of Directors.

Preferred stock may be transferred only on the books of the Cooperative; and shall not be redeemable.

Notwithstanding any of the foregoing provisions, the Board of Directors shall have the power, from time to time and at any time, to redeem or secure a release or satisfaction of any preferred stock certificates to compromise or settle a dispute between a holder thereof and the Cooperative, to settle an estate of a deceased or bankrupt stockholder, or to close out a stockholder's interest when he has moved from the territory.

Upon dissolution or distribution of the assets of the Cooperative, the holders of all preferred stock shall be entitled to receive the book value per share for their stock, plus any dividend declared thereon and unpaid before any distribution is made on the common stock.

#### **ARTICLE IV. MEETINGS OF MEMBERS**

**Section 1. Annual Meeting.** The annual meeting of the members of the Cooperative shall be held in the State of Mississippi, during the month of May, at such other time and in such place as the Board of Directors shall designate.

**Section 2. Special Meetings.** Special meetings of the members of the Cooperative may be called at any time by order of the Board of Directors and shall be called upon written request of at least six (6) members, or at least twenty-five percent (25%) of the membership, whichever is a greater number.

**Section 3. Notice of Meetings.** Written notice of every regular and special meeting of members shall be prepared and mailed to the last known post office address of each member not less than fifteen (15) days before such meeting. Such notice shall state the nature of the business expected to be conducted and the time and place of the meeting. No business shall be transacted at any special meeting other than that referred to in the notice.

**Section 4. Voting.** Unless otherwise stated in the Articles of Incorporation, or these Bylaws, or required by applicable law, all questions shall be decided by a vote of a majority of the members voting thereon.

Each member shall be entitled to only one vote. Voting by mail shall not be permitted. Proxy voting shall be allowed. Each proxy shall be in writing, and no member shall vote more than one proxy. Cumulative voting is not permitted.

If a membership is held by a partnership, corporation, or other legal entity, the member shall designate in writing the person who shall vote on behalf of the member. That designation shall remain in effect until written notice of a properly authorized change in the designated voter shall be received by the Cooperative.

**Section 5. Quorum.** Five (5) members or twenty percent (20%) of the membership, whichever is a larger number, shall constitute a quorum at any properly called annual or special membership meeting.

#### **ARTICLE V. DIRECTORS AND OFFICERS**

**Section 1. Number and Qualification of Directors.** The Cooperative shall have a Board of Directors of not less than five (5) nor more than eleven (11) members. Each director elected shall be a member of the Cooperative in good standing. A majority of the Board of Directors at all times shall be producers whose primary business is the production of sweet potatoes.

No person shall be eligible to be a director if that person is in competition with, or is affiliated with any enterprise that is in competition with, the Cooperative. If a majority of the Board of Directors of the Cooperative finds at any time following a hearing that any director is so engaged or affiliated that person shall thereupon cease to be a director.

**Section 2. Election of Directors.** At the first annual meeting of the members of the Cooperative, directors shall be elected to succeed the incorporating directors. Three (3) directors shall be elected for one (1) year; four (4) directors for two (2) years and four (4) directors for three (3) years. At each annual meeting thereafter, new directors shall be elected, for a term of three (3) years each, to succeed those directors whose terms are expiring.

All directors shall be elected by secret ballot, and the nominee(s) receiving the greatest number of votes shall be elected.

**Section 3. Election of Officers.** The Board of Directors shall meet within seven (7) days after the first election and within seven (7) days after each annual election and shall

elect by ballot a president, vice president, secretary, and treasurer, each of whom shall hold office until the election and qualification of a successor, unless earlier removed by death, resignation, or for cause.

The president and vice president shall be members of the Board of Directors. The secretary and treasurer need not be directors or members of the Cooperative.

**Section 4. Vacancies.** Whenever a vacancy occurs in the Board of Directors, other than from the expiration of a term of office, the remaining directors shall appoint a member to fill the vacancy until the next regular meeting of the members. If the term of the vacating director does not expire at that regular member meeting, a special election shall be held to select a director to fill the year or years remaining in that term.

If one or more officer positions become vacant, such offices shall be filled by the Board of Directors, through election by ballot, at either a regular or special meeting of the Board.

**Section 5. Regular Board Meetings.** In addition to the meetings mentioned above, regular meetings of the Board of Directors shall be held at least quarterly, or at such other times and at such places as the Board may determine.

**Section 6. Special Board Meetings.** A special meeting of the Board of Directors shall be held whenever called by the president or by a majority of the directors. Only the business specified in the written notice shall be transacted at a special meeting. Each call for a special meeting shall be in writing, shall be signed by the person or persons calling the meeting, shall be addressed and delivered to the secretary, and shall state the time and place of such meeting.

**Section 7. Notice of Board Meetings.** Oral or written notice of each meeting of the Board of Directors shall be given each director by, or under the supervision of, the secretary of the Cooperative not less than seventy-two (72) hours prior to the time of meeting. But such notice may be waived by all the directors, and their appearance at a meeting shall constitute a waiver of notice.

**Section 8. Quorum.** A majority of the Board of Directors shall constitute a quorum at any meeting of the Board.

**Section 9. Reimbursement and Compensation.** The Cooperative shall reimburse directors for all reasonable expenses incurred in carrying out their duties and responsibilities.

The compensation, if any, of the members of the Board of Directors shall be determined by the members of the Cooperative at any annual or special meeting of the Cooperative.

**Section 10. Removal of Directors.** Whenever any director shall fail to meet the qualifications as described in Section 1 of this Article, or fails to attend three (3) consecutive Board meetings, either regular or special, without just cause and provided that notice of such meetings has been given in accordance with these Bylaws, then it shall be the duty of the Board to remove said director and to fill the vacancy in accordance with Section 4 of this Article.

Members, through petition noting the charges and signed by at least fifty percent (50%) of the membership, whichever is a greater number, may request the removal of any member of the Board. Such director shall be notified in writing of the charges and given an opportunity to be heard at a membership meeting of the Cooperative. Removal of a director shall require a vote of two-thirds (2/3) of members voting. Any vacancy resulting from such action shall be filled by nomination and vote of members at such meeting.

## ARTICLE VI. DUTIES OF DIRECTORS

**Section 1. Management of Business.** The Board of Directors shall have general supervision and control of the business and the affairs of the Cooperative and shall make all rules and regulations not inconsistent with law, the Articles of Incorporation, or Bylaws for the management of the business and the guidance of the members, officers, employees, and agents of the Cooperative.

**Section 2. Employment of Manager.** The Board of Directors shall have power to employ, define duties, fix compensation, and dismiss a manager with or without cause at any time. The Board shall authorize the employment of such other employees, agents, and counsel as it from time to time deems necessary or advisable in the interest of the Cooperative. The manager shall have charge of the business of the Cooperative under the direction of the Board of Directors.

**Section 3. Bonds and Insurance.** The Board of Directors shall require the manager and all other officers, agents, and employees charged by the Cooperative with responsibility for the custody of any of its funds or negotiable instruments to give adequate bonds. Such bonds, unless cash security is given, shall be furnished by a responsible bonding company and approved by the Board of Directors, and the cost thereof shall be paid by the Cooperative.

The Board of Directors shall provide for the adequate insurance of the property of the Cooperative, or property which may be in the possession of the Cooperative, or stored by it, and not otherwise adequately insured, and, in addition, adequate insurance covering liability for accidents to all employees and the public.

**Section 4. Accounting System and Audits.** The Board of Directors shall have installed an accounting system which shall be adequate to meet the requirements of the business and shall require proper records to be kept of all business transactions.

At least once in each year the Board of Directors shall secure the services of a competent and disinterested public auditor or accountant, who shall make a careful audit of the books and accounts of the Cooperative and render a report in writing thereon, which report shall be submitted to the directors and the manager of the Cooperative and made available to the members of the Cooperative.

This report shall include at least a balance sheet showing the true assets and liabilities of the Cooperative, and an operating statement for the fiscal period under review.

**Section 5. Depository.** The Board of Directors shall select one or more banks to act as depositories of the funds of the Cooperative and determine the manner of receiving, depositing, and disbursing the funds of the Cooperative and the form of checks and the person or persons by whom they shall be signed, with the power to change such banks and the person or persons signing such checks and the form thereof at will.

**Section 6. Committees.** The Board may, at its discretion, appoint from its own membership an executive committee of five (5) members, and determine their tenure of office and their powers and duties. The Board may delegate to the executive committee all or any stated portion of the functions and powers of the Board, subject to the general direction, approval, and control of the Board. Copies of the minutes of any meeting of the executive committee shall be mailed to all directors within seven (7) days following such meeting.

The Board of Directors may, at its discretion, appoint such other committees as it deems appropriate.

## **ARTICLE VII. DUTIES OF OFFICERS**

**Section 1. Duties of President.** The president shall (1) preside over all meetings of the Cooperative and of the Board of Directors; (2) call special meetings of the Board of Directors; (3) appoint such committees as the Board of Directors may deem advisable for the proper conduct of the cooperative; and (4) perform all acts and duties usually performed by a presiding officer.

**Section 2. Duties of Vice President.** In the absence or disability of the president, the vice president shall perform the duties of the president, provided, however, that in case of death, resignation, or disability of the president, the Board of Directors may declare the office vacant and elect any eligible person president.

**Section 3. Duties of Secretary.** The secretary shall keep a complete record of all meetings of the Cooperative and of the Board of Directors and shall have general charge and supervision of the books and records of the Cooperative. The secretary shall sign papers pertaining to the Cooperative as authorized or directed by the Board of Directors. The secretary shall serve all notices required by law and by these Bylaws and shall make a full report of all matters and business pertaining to the office to the members at the annual meeting. The secretary shall keep the corporate seal and all books of blank certificates, complete and countersign all certificates issued, and affix the corporate seal to all papers requiring a seal; shall keep complete stock ownership records; shall make all reports required by law; and shall perform such other duties as may be required by the Cooperative or the Board of Directors. Upon the election of a successor, the secretary shall turn over all books and other property belonging to the Cooperative.

**Section 4. Duties of Treasurer.** The treasurer shall be responsible for the keeping and disbursing of all monies of the Cooperative, and shall keep accurate books of accounts of all transactions of the Cooperative. The treasurer shall perform such duties with respect to the finances of the Cooperative as may be prescribed by the Board of Directors. At the expiration of his term of office, the treasurer shall promptly turn over to his successor all monies, property, books, records, and documents pertaining to his office or belonging to the Cooperative.

## **ARTICLE VIII. OPERATION AT COST AND MEMBERS' CAPITAL**

**Section 1. Operation at Cost.** The Cooperative shall at all times be operated on a cooperative service-at-cost basis for the mutual benefit of its member patrons.

**Section 2. Margin Allocation.** In order to induce patronage and to assure that the Cooperative will operate on a service-at-cost basis in all its transactions with its members, the Cooperative is obligated to account on a patronage basis to all member patrons on an annual basis for all amounts received from business conducted with members on a patronage basis, over and above the cost of providing such services, making reasonable additions to reserves, and redeeming capital credits. Such allocation shall be on the basis on the volume (dollar value) of product marketed through (purchased from) the Cooperative.

The Cooperative is hereby obligated to pay all such amounts to the patrons in cash or by credits to a capital account of each member patron. Provided, however, that no dividends shall be paid on any capital credits.

**Section 3. Allocation of Profits.** The Board of Directors shall be responsible each year for the equitable allocation

of the net profits of the Cooperative between patronage refunds and the declaration of dividends to the holders of the Preferred Stock of the Cooperative.

**Section 4. Fiscal Year.** The fiscal year of the Cooperative shall commence on the first day of January and end on the last day of December.

#### **ARTICLE IX. CONSENT**

Each person who hereafter applies for and is accepted to membership in the Cooperative, and each member of the Cooperative on the effective date of this bylaw who continues as a member after such date, shall, by such act alone, consent that the amount of any distributions with respect to his patronage occurring after the effective date of this bylaw, which are made in qualified written notices of allocation or qualified per-unit retain certificates (as defined in 26 U.S.C. 1388), and which are received by him from the cooperative, will be taken into account by him at their stated dollar amounts in the manner provided in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation and per-unit retain certificates are received by him.

Written notification of the adoption of this Article, a statement of its significance, and a copy of the provision shall be given separately to each member and prospective member before membership in the Cooperative.

#### **ARTICLE X. NONMEMBER BUSINESS**

The Cooperative may conduct business with nonmembers on either a patronage or nonpatronage basis. However, the Cooperative shall not market the products of nonmembers in an amount the value of which exceeds the value of the products marketed for members. It shall not purchase supplies and equipment for nonmembers in an amount the value of which exceeds the value of the supplies and equipment purchased for members. It shall not purchase supplies and equipment for persons who are neither members nor producers of agricultural products in an amount the value of which exceeds fifteen percent (15%) of all its purchases. Business done for the United States or any of its agencies shall be disregarded in determining the limitations imposed by this section.

#### **ARTICLE XI. NONPATRONAGE INCOME**

The nonpatronage income of the Cooperative shall be its gross receipts derived from all sources which under law do not qualify as patronage income, less all expenses properly attributable to the production of such nonpatronage sourced income and all income taxes payable on such receipts by the Cooperative. Nonpatronage income shall be used in behalf of the Cooperative and its members in accordance with such

lawful purposes, including assignment to an unallocated reserve account and allocation in whole or in part to members, as may be determined by the Board of Directors.

#### **ARTICLE XII. LOSSES**

**Section 1. Nonpatronage Losses.** If in any fiscal year the Cooperative shall incur a loss other than on patronage operations, such loss may be charged against any reserve accumulated from nonpatronage earnings in prior years.

**Section 2. General Provisions.** The Board shall have no authority to make assessments against members. This section shall not be construed to deprive the Cooperative of the right to carry backward or forward losses from any source whatsoever in accordance with the Internal Revenue Code or state taxing statutes.

#### **ARTICLE XIII. DISSOLUTION AND PROPERTY INTEREST OF MEMBERS**

Upon dissolution, after all debts and liabilities of the Cooperative shall have been paid, all shares of preferred stock and common stock redeemed, and all capital furnished through patronage shall have been retired without priority on a pro rata basis, the remaining property and assets of the Cooperative shall be distributed among the members and former members in the proportion which the aggregate patronage of each member bears to the total patronage of all such members insofar as practicable, unless otherwise provided by law.

#### **ARTICLE XIV. INDEMNIFICATION**

The Cooperative shall indemnify its officers, directors, employees, and agents to the fullest extent possible under the provisions of the (applicable State law), as it may be amended from time to time.

The Cooperative may purchase liability insurance coverage for any person serving as an officer, director, employee or agent to the extent permitted by applicable State law.

#### **ARTICLE XV. AMENDMENTS**

If notice of the character of the amendment proposed has been given in the notice of meeting, these Bylaws may be altered or amended at any regular or special meeting of the members by the affirmative vote of two-thirds (2/3) of the members present or voting by proxy.

# COOPERATIVE MARKETING AGREEMENT

THIS AGREEMENT, made as of this \_\_\_ day of \_\_\_\_\_, 2000, by and between \_\_\_\_\_, herein referred to as "Producer," and Georgia Herb Farmers Cooperative, a Georgia cooperative association having an office at Atlanta, Georgia, herein referred to as "Association".

## RECITALS

A. Association is a cooperative association organized under the laws of the State of Georgia.

B. Producer is a member of the Association who produces Herbs.

C. Producer has purchased one share of Class A common voting stock and paid to Association the sum of Five Hundred Dollars (\$500.00), receipt of which is acknowledged as an equity investment in the Association. This entitles Producer to all the benefits of membership in the Association as long as Producer complies with the Articles of Incorporation and Bylaws of the Association and the provisions of this Agreement.

In consideration of the mutual covenants and obligations contained herein, the parties agree as follows:

**Section 1. Sale of Herbs.** Association agrees to buy and Producer agrees to sell to Association its entire harvest of Herbs grown by Producer on approximately \_\_\_\_\_ acres of herb production owned and operated by Producer. All Herbs produced by Producer shall be at the risk of Producer until delivery.

**Section 2. Payment to Producer.** Association shall market Producer's Herbs and Producer shall accept as payment for Producer's (product) a price based on the current market price in the area for Herbs of like quality. Association will pay the amount due Producer not more than \_\_\_\_\_ days after delivery of the Herbs to the Association.

**Section 3. Delivery.** All Herbs shall be delivered by Producer at Producer's expense at the earliest reasonable time after harvesting, or at such time as called for by Association, to Association's principal place of business or to one of Association's authorized buying locations as prescribed by Association. The Association will use its best efforts to locate buying locations within a reasonable distance from Producer's farm. It is specifically agreed by and between parties hereto that harvesting Herbs from Producer's ponds shall be scheduled by mutual agreement between both parties hereto.

**Section 4. Exclusive Arrangement.** It is specifically understood by and between the parties hereto that so long as Herbs are grown and produced by the Produce throughout the term of this Agreement, that all such fish so produced on the above acreage that are marketable shall

be sold only to the purchaser and further that Producer will attempt to provide and make available to Association one fourth of his annual crop in each calendar quarter period throughout the term of this contract in order to insure a continuing year round supply of Herbs for processing at the Association's processing plant.

**Section 5. Termination/Automatic Renewal.** After this Agreement shall have been in effect for the initial term of five years from the date of execution by the parties hereto, either party hereto may terminate it in any year on the last day of the anniversary month in which this Agreement was executed by notifying the other party in writing of this intention, such notice to be given between the first and fifteenth of the month immediately prior to the effective date of termination. If neither of the parties hereto terminate this Agreement in any year, as aforesaid, it is mutually agreed that this shall constitute conclusive evidence that the parties hereto have renewed this Agreement for another successive term of one year.

**Section 6. Charge for Inferior or Damaged Products.** Any loss that the Association may suffer on account of inferior or damaged condition of products shall be charged to the Producer, individually.

**Section 7. Mutual Benefit.** As a part of the consideration for this Agreement and in addition to the purchase price as above set forth, it is mutually understood by and between the parties hereto that this Agreement is equally advantageous to both parties hereto in order to establish a continuing source of the herbs to be processed by the Association and to establish a ready market for such herbs grown by Producer.

**Section 8. Suspension of Agreement.** In the event that the Association shall find it impossible due to fire, wind, storm, acts of God, or any circumstances beyond its control, to process Producer's Herbs within a reasonable time after scheduled harvest of same as hereinabove provided and shall so notify Producer, then and in the event, by mutual agreement of the parties hereto Producer shall have the right to dispose of such Herbs outside the terms of this Agreement until such time as the Association shall give notice to Producer that it is able and ready to process Producer's Herbs. Nothing herein contained shall be construed as a complete release of either party from the terms of this Agreement beyond the particular period of suspension as before stated. Notice shall consist of writing mailed by the Association

to Producer at his address with full and sufficient postage affixed thereon.

**Section 9. Liquidated Damages.** Inasmuch as the remedy at law would be inadequate and inasmuch as it would be impracticable and extremely difficult to determine the actual damage resulting to the Association should the Producer fail to deliver the herbs covered hereby, regardless of the cause of such failure, the Producer agrees to pay to the Association as liquidated damages for the breach of this Agreement for all Herbs delivered or disposed of, by or for Producer other than in accordance with the terms hereof, the difference between the then current market price payable by the Association to Producer hereunder and the actual price realized from the Producer's sale in violation of this Agreement, or the sum of five cents (\$.05) per pound on all herbs, whichever is greater. The parties agree that this Agreement is one of a series dependent for its true value on the adherence of each and all of the contracting parties to each and all of the said agreements, but the cancellation of any other similar agreement or the failure of parties thereto to comply therewith shall not affect the validity of this agreement. Failure to deliver the Herbs committed herein due to acts of God shall not constitute a breach of this Agreement.

**Section 10. Substitute Acreage.** In the event of termination of this Agreement by hardship or any other reason Producer will make every attempt to secure from other Producers acreage equal to the acreage committed under this Agreement.

**Section 11. Legal Costs and Expenses.** If the Association brings any action whatsoever by reason of a breach or threatened breach of this Agreement, Producer shall pay to the Association all court costs, costs for bonds, travel expenses and all other expenses arising out of or caused by the litigation, including reasonable

attorney's fees expended or incurred by Association in such proceedings, and all such costs and expenses shall be included in the judgment.

**Section 12. Nonconforming Agreements.** Association may enter into agreements with other growers differing in terms from those contained herein, consistent with the Bylaws of the Association, without invalidating this Agreement, provided that Producer at Producer's request may sign a similar agreement as a substitute for this Agreement.

**Section 13. No Contrary Agreements.** Producer warrants that Producer has not contracted to sell, market, consign, or deliver and will not contract to sell, market, consign, or deliver any Herbs during the term of this Agreement to any person, firm or corporation, contrary to this Agreement.

**Section 14. Forfeiture of Membership.** Violation of this Agreement in any material respect by Producer shall be grounds for the Board of Directors to terminate Producer's membership in the Association.

**Section 15. Articles and Bylaws.** Producer agrees to conform to and observe the Articles of Incorporation and Bylaws of the Association now in force and as they may be amended hereafter.

**Section 16. Entire Agreement.** It is agreed that the Articles of Incorporation and the Bylaws of the Association, now or hereafter in effect, and this Marketing Agreement constitute the entire agreement between the Association and Producer, and that there are no oral or other conditions, promises, covenants, representations, or inducements in addition to, or at variance with, any terms of this Agreement.

**Section 17. Governing Law.** This Agreement shall be governed by the laws of the State of Georgia.

IN WITNESS WHEREOF, these parties have executed this Agreement as of the day, month and year first above written:

\_\_\_\_\_  
Producer

**GEORGIA HERB FARMERS COOPERATIVE**

By: \_\_\_\_\_  
President

**ATTEST:**

\_\_\_\_\_  
Secretary



# Legal Considerations When Forming a Cooperative\*

## **Do I need to incorporate the business as a cooperative?**

No. Many states have cooperative incorporation laws that may or may not be appropriate for the cooperative you are forming. Cooperatives can also be incorporated as nonprofit corporations or general business corporations under the laws of many states (including ever-popular Delaware). Some cooperatives even operate informally without being incorporated at all.

## **If I incorporate a cooperative as a nonprofit corporation or a general business corporation, how is it still a cooperative?**

State or federal government can confer some benefits, or impose some restrictions, on your business depending on how you incorporate, but only the members of your cooperative determine whether your business is operating as a cooperative or not. This depends on how your bylaws are written and how the members govern and operate the business, not on how it is incorporated.

## **OK, then how do I ensure that our business is a cooperative?**

When your cooperative is forming, the prospective members of the cooperative need to discuss how the business will be governed and run. The group will need to draft bylaws and/or other governing documents (e.g. articles of incorporation, membership agreements - see link to "Things to Know about the Bylaws and Articles of Incorporation") that state how the business is structured. The business should be operated according to the seven universally agreed-upon cooperative principles (see link to ICA Principles) in order to operate as a cooperative. The business must be owned and democratically controlled by its members with the members receiving benefits in proportion to their patronage of the business.

## **Are there any tax advantages to operating as a cooperative?**

Yes. In general, the federal government and state governments recognize the way that cooperatives operate and tax them accordingly. Cooperatives generally do not pay income tax on surplus earnings that are refunded to members. Under Subchapter T of the federal tax code, these distributions are called "patronage dividends". The members, however, must include these refunds in their taxable income.

When a business is "operating on a cooperative basis", according to federal rules, the cooperative may deduct "patronage dividends" from its taxable income. Patronage dividends are the refunds "paid to a patron 1) on the basis of quantity or value of business done with or for such patron, 2) under an obligation of such organization to pay such amount, which obligation existed before

the organization received the amount so paid, and 3) which is determined by reference to the net earnings of the organization from business done with or for its patrons." The "preexisting legal obligation" rule requires that some formal obligation exist in writing to pay out patronage dividends. This obligation can be found in the cooperative's bylaws or the membership agreement.

Because of the way some cooperatives operate, they are tax-exempt under federal and state law. These include credit unions and rural utility cooperatives. Credit unions operate under tight restrictions imposed by federal and state law and put all earnings made by their businesses back into the business to deliver more benefits for their members. Rural utility cooperatives also operate under tight restrictions that federal and state governments impose in order for them to claim tax-exempt status. Rural utility cooperatives may distribute "capital credits" to their members when surplus earnings are made.

## **How can cooperatives raise equity capital from its members?**

Subchapter T allows cooperatives to retain patronage dividends and allocate them to the patrons' equity accounts with the cooperative through "written notices of allocation." If the equity is qualified as defined in the code, the cooperative can deduct the amount of allocations from its taxable income in that same year. Patrons include the amount allocated in their taxable income in the year they receive the qualified written notices of allocation. Subchapter T requires that at least 20 percent of the patrons' patronage dividends be paid out in cash in order for the allocation to be qualified. The cooperative can retain up to 80 percent as equity investments without owing tax on those investments.

Cooperatives can choose to delay the pass-through by retaining patronage dividends as nonqualified investments. The cooperative can retain any amount of the patronage dividends and take the amount into its taxable income for the year. When the patronage dividends are later redeemed in cash by the patrons, the cooperative can deduct the amount from its taxable income for the year of redemption.

## **Legal Advice**

People seriously considering a cooperative venture should seek the advice of an attorney familiar with cooperatives. The articles of incorporation and bylaws should be specific to the new cooperative and not be merely copied from a model provided by another cooperative. An attorney can also provide advice on the particular requirements of the state in which the cooperative plans to incorporate.

# History of the Federation of Southern Cooperatives/ Land Assistance Fund



*Joseph and Helen Fields on their  
South Carolina farm*



*Sankofa youth market in Alabama*

In the four decades since the founding of the Federation of Southern Cooperatives in 1967, there has been significant work, participation and development of low income people and their communities.

There are three major themes of the Federation/LAF's mission, work and accomplishments over the past forty years:

- to develop cooperatives and credit unions as a means for people to enhance the quality of their lives and improve their communities;
- to save, protect and expand the landholdings of Black family farmers in the South;
- to develop, advocate and support public policies to benefit the membership of Black and other family farmers and low income rural communities.

The Federation/LAF has woven these themes together to create a strong community based movement of organizations steeped in struggle, tested by time, experienced in fighting exploitation and knowledgeable of the tactics, tools and techniques needed to help people build their own property and progress.

The Federation has for these four decades maintained a membership of low income grassroots people, organized into cooperatives and credit unions to make quantitative and qualitative changes in their lives and communities. Currently, there are over 70 active cooperative member groups, themselves with a membership of more than 20,000 families working together across ten southern states, with a concentration in Mississippi, Alabama, Georgia and South Carolina.

## **Federation Merges with Emergency Land Fund**

From its beginnings, the Federation/LAF was dedicated to saving and enhancing the land resources owned by

its small family farmer members in the South. This goal was significantly advanced when the Federation merged in 1985 with the Emergency Land Fund, a sister organization working on the crisis in Black land ownership. The new organization, called the Federation of Southern Cooperatives/Land Assistance Fund, was able to provide more extensive land protection services to Black farmers within cooperatives and other interested farmers, some of whom were later organized into cooperatives

## **Saving Black Owned Land**

Despite the overall decline in the number of Black farmers and land owners in the South from over 100,000 owning 8 million acres in 1960 to less than 20,000 today owning 2.3 million acres, the Federation continues to work with thousands of these landowners. Those Black farmers affiliated with the Federation have learned how to save, protect and use their land in a sustainable manner. With our help, family farmers have developed alternative and more appropriate agricultural and forestry enterprises to sustain land ownership. More outreach, education and technical support is clearly needed but without the Federation, we are convinced that significantly more land would have been lost over the decades. A major focus in the coming decades is how to more effectively utilize the remaining valuable land-base owned by Black people in the South.

The Federation/LAF was developed by community organizations and leaders molded and forged in the Civil Rights Movement of the 1960's. These people understood that a successful community development process involved both activities showing progress through alternative means and advocacy for change in public policies that would help support, permit and institutionalize those changes. The Federation/LAF has been active over the years in advocating at the local, state and national level for public policies to assist Black farmers and develop persistently poor rural communities.

# **cooperatives**

**You  
Build  
Them**

**You  
Control  
Them**

**You  
Benefit  
From  
Them**

**You  
Own  
Them**

**Alone One Person Can Do Little**

***...but together we can create new jobs and extra income in our communities***

**The “Vision” of the  
Federation of Southern Cooperatives/  
Land Assistance Fund**

We envision sustainable rural communities that are supported by a network of farmers, cooperatives and credit unions, which are based on local control and leadership and are centered around advocacy, land based economic development and wealth creation.