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# New Generation Cooperatives: *Case Study*

*Golden Oval*

*by Patricia Buschette*



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## **Golden Oval: A Case Study**

*by Patricia Buschette*

For decades, Renville, Minnesota was a community where egg production was a matter of housing 200 laying hens in a small frame chicken house. Farmers brought cases of eggs to town to the local egg buyer or co-op, their check often used in the local grocery store. However that picture of egg production in Renville, Minnesota, has changed. Since 1996, sleek silver insulated tankers with a distinctive yellow and blue Golden Oval logo travel from the Golden Oval plant in Renville, to locations as far as Canada, delivering liquid eggs to Golden Oval customers. How did this change happen? Quite simply, the world changed, and those who recognized change and its potential envisioned a new future.

### **History of the Renville Area**

Renville, Minnesota, is in Renville County, 120 miles west of the Minneapolis-St. Paul metropolitan area. Frank Svoboda (1976) in *Looking Back: A History of Agriculture in Renville County*, describes Renville County as a rolling countryside with a “rich, black clay loam” (22). The economic base of the City of Renville, organized in 1878, has always been agriculture. For years, farmers raised crops such as corn, flax, oats, wheat, and alfalfa. Later, flax and oats were phased out and soybeans were introduced in the 1950s. Much of this production went into on-farm animal production. Farm sizes changed as those traditionally ranging in size from 80-160 acres enlarged. Larger farm machinery had made it possible for producers to operate larger tracts. The decreased farm population and regionalized services had a negative impact on the Main Street economy and businesses suffered.

The economic well-being of the community, has traditionally paralleled the fortunes of the farm economy. The city had grown since 1930 when residents numbered 1,004. The general growth until the mid-1980s stopped when a drop in the health of the agricultural economy and farm expansion adversely affected the local economy. Main Street mirrored the effects of the countryside. Growth returned in the 1990s, however, and the population of 1,315 in 1990 had grown to 1,374 in 1997.

Renville is located on the Twin City and Western Railroad, a short line from the Twin Cities to the western edge of Minnesota. Formerly the Milwaukee Road and the Soo Line, the railroad has hauled the production of area farms to the centers of processing and further transportation. Farmers sold grain to the local co-op elevator, with future profits enjoyed by those who refined and processed farm commodities to develop a product closer to the tables of American and International consumers.

### **History of Traditional Cooperatives**

Minnesota’s lead in the development and participation in cooperatives has been recognized throughout the United States. This was not an unlikely development, since early settlers from

Norway, Sweden, Denmark, and Finland believed cooperative effort to be a way of life. From this understanding of the value of shared resources, traditional co-ops were formed. According to a Minnesota Experiment Station bulletin released in 1915, 614 creameries, 270 grain elevators, and 115 livestock shipping associations operated in Minnesota at that time. Co-op organizations provided stores, fire insurance, and telephone companies. Renville residents had organized more co-ops than any other county. These co-ops provided economic benefits to its members and to the community by providing goods and services at a competitive price, and returning profits to shareholders through dividends. One was a member of the co-op simply by doing business with it.

### **History of Value-Added Cooperatives**

One of the first local cooperative efforts to inspire area producers to seek new opportunities through a cooperative effort was Southern Minnesota Beet Sugar, a closed co-op formed by sugar beet producers. This co-op was formed soon after the American Crystal Sugar Company processing plant in Chaska closed. Farmers in west central Minnesota who had delivered sugar beets to the American Crystal Sugar Company as contract growers understood the value of this crop. In the 1970s, growers tried to develop interest in the development of a farmer-owned sugar producing co-op. In a 1997 book commemorating the early years of the Southern Minnesota Beet Sugar Cooperative, one of the co-op's attorneys, Michael Trucano (1997), explained the reasons why farmers worked to develop the co-op: "They were driven by a vision of creating economic opportunity in rural Minnesota that would stabilize their local communities and staunch the exodus of young people out of the area." While Trucano goes on to describe the economic success brought to the women and men who envisioned and built the co-op, the theme of his book returns to the issue of economic development for the community. The fledgling co-op suffered difficult start-up years. During construction of the factory, a strike of construction workers delayed production one year. The first year of start-up was hampered by inexperienced workers and a sugar mill flawed with construction defects that required adjustment. In the early 1980s, producers struggled with production challenges, including infestation of the *Cercospora* leaf spot fungus. Today, sugar beets are one of the most profitable crops grown in Renville County.

Following the development of Southern Minnesota Beet Sugar Cooperative, Minnesota Corn Processors (MCP) was legally formed in 1980. This corn wet milling company began construction in 1982 in Marshall, Minnesota, in the southwestern section of the state, approximately 50 miles from Renville. The plant began grinding corn in 1983, processing ethanol, starches, syrups, dextrose, feed, and corn oil. The members of this value-added co-op covered a nine-county area that processed nearly 120 million bushels of corn sold by producers as a cash crop in 1980. This value-added cooperative continued to grow, and in 1992 began construction of an expansion plant in Columbia, Nebraska. The members of the co-op were enthusiastic but faced setbacks in 1996. The effect of high corn prices and low profits were disastrous, and large cost overruns on expansion and renovation drained the co-op. The plant is now making profits, however, and is experiencing more prosperous times.

## Development of Golden Oval

Trends and changes in national agricultural economics have far-reaching effects and these impact on local business operations as well. The board and management of Co-op Country Farmers Elevator (Co-op Country) considered the makeup of the co-op membership. They realized that a large number of patrons would reach retirement age within a few years. At the age of 72, members would be eligible to receive a portion of their equity in the co-op. These payments of equity to retiring members and the estates of deceased members would diminish the co-op's operating capital. As a part of its long-range planning, management of Co-op Country anticipated the aging of farmer patrons. As the average age of patrons began to increase, they realized that the co-op would soon incur the liability of large equity payments. As a traditional co-op, the only form of income was the profit on the purchase and sale of grains and feed and agronomy services. Between 1989 and 1990, Dana Persson, then the CEO of Co-op Country, and the co-op's board of directors determined that the co-op required an additional source of income. This income would provide the capital for continued operation of the co-op, and the resources to meet the equity payments due to retired and deceased producers. Board and management explored ideas and set criteria for a value-added project. They agreed that the project could not be dependent on government subsidies. It must process crops grown by the member farmers and employ proven technology. The board considered the possibilities and decided to explore the feasibility of a swine project that would use part of the 28-35 million bushels of corn grown in Renville County.

The Co-op Country board then moved toward the development of an organization for the proposed new value-added co-op and any other co-ops that would be formed in the future. This co-op would serve as an umbrella organization for a series of new value-added co-ops through which area farmers could add value to crops they produced. While still on the drawing board, the new co-op was envisioned as a profit center for Co-op Country. Co-op Country would provide 40 percent of the capital and finance the remainder. Once the Co-op Country board had studied the possibilities for a swine multiplier unit operation, the board organized small group meetings with members of Co-op Country to determine the interest and support of the membership for the project.

The membership sent two messages to the board. Some members were opposed to the swine project because they believed such a project to be in competition with individual swine producers. The second message was that they supported the idea of a value-added project but proposed that the new co-op should be open to individual members as well as a Co-op Country project. The swine project was abandoned, and management and the board considered other options.<sup>1</sup>

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<sup>1</sup>While Co-op Country determined that they would not proceed with the swine project, members of the community who saw potential in shared effort joined together to form ValAdCo, through which local producers could add value to their corn through a swine project. ValAdCo began with 39 corn producers who built a 1,250 sow multiplier unit that by 1993 had grown to four sites housing 3,750 sows and their offspring. ValAdCo's goal was to add profit to the corn that members produce by producing breeding gilts and animals for market.

Alternative options included turkey and broiler production. However, after studying the options, egg production proved to have the greatest promise. According to Persson, the group studied the industry for 3½ years. “The cheapest dollars are spent in planning,” he explained as planners interviewed leaders in the industry to gain insight into the development and management in the egg production industry.

A start-up board was organized consisting of board members of Co-op Country, and the new value-added co-op was incorporated in the spring of 1994. It was known as Midwest Investors of Renville, Inc., the name of the umbrella organization. The name was misleading, however, and many who were unfamiliar with the co-op believed the organization to be a stock investment company. To avoid confusion, the new egg producing entity was named Golden Oval. Anyone who was an “at-risk” agricultural producer was eligible for membership. Membership in Co-op Country or other value-added co-ops was not a requirement, although many members of Golden Oval are members of Co-op Country and other value-added co-ops.

Once planners decided to proceed with an egg production facility, the start-up board managed the sale of shares. The group recruited Golden Oval members from the Co-op Country membership. They also sought leaders outside of the co-op to create interest and assist in a membership outside of Co-op Country. The marketing effort was successful and created the needed enthusiasm. According to Persson, \$4 million in investment funds were raised in thirty days. Shares at this initial offering were sold for \$3.50 a share. Along with the purchase of each share, members assumed the right and the obligation to deliver one bushel of corn each year. Persson believes that new investors were aware of the potential of value-added co-ops and were seeking an opportunity. The goal of the co-op is expressed in its mission statement, “To provide each farmer-producer, who is an owner of the company, a competitive return on their investment.” One of the members of Golden Oval is Co-op Country, who through its block of shares, successfully put in place a stream of income to augment its profit, to provide funds for future development, and to fulfill its responsibility of equity payments to retired members and to the estates of deceased members.

Once 1,140 shares had been sold, an election was held and a board of directors was elected from within the membership. The start-up board that had presided over the share offering was dissolved. As Persson explains, the City of Renville understood the economic advantages of the value-added co-op and aggressively worked with the co-op to assist. This assistance included availability of 40 acres of city property in its industrial park, as well as Tax Increment Financing (TIF).

Golden Oval began production in 1995 with one million laying hens and since then has increased production with an additional million laying hens. When the co-op’s management obtained contracts for liquid eggs, the co-op chose to sell only liquid product, in part because of its ease and savings in transportation. Under their uniform marketing agreement, the 411 co-op members deliver corn that is ground for feed and used for Golden Oval’s laying operation.

## Feed Milling

Early in the stages of the development of Golden Oval, a feed milling facility was constructed as a joint project by Golden Oval, ValAdCo, and Co-op Country. ValAdCo, the value-added co-op that had developed the swine project rejected by Co-op Country members, required increasingly greater amounts of feed for its hog production. Golden Oval's board knew that because of future expansion, the feed requirement would continue to increase. While 14,530 tons of feed were required in 1995, by 1996 that figure had grown to 51,791 tons and by 1997, usage had grown to 77,024 tons of feed. Local milling facilities were limited, however. A feed mill built in the 1930s by Co-op Country had been torn down, and a mill located in Olivia was only a few years newer and was slow and inefficient. A feed mill was needed not only to provide the feed for ValAdCo and Golden Oval, but for future expansion for Co-op Country. The present facilities were not sufficient, and future needs would require outside milling.

The leadership of the boards of Co-op Country, Golden Oval, and ValAdCo began discussions on how to meet increased feed requirements. According to Curt Watson, who represented ValAdCo, "We talked out disagreements," as the representatives struggled with issues as they arose. A difficult problem to be resolved was how to integrate the needs of a traditional co-op and two value-added co-ops. United Mills would deliver milled product to Co-op Country, who would, in turn, sell milled product to their customers. On the other hand, Golden Oval and ValAdCo used the grain for their own production. During the negotiation process, Persson suggested a variation on the group's philosophy. Rather than running the mill as a profit center, he proposed that it be run as a cost center. In such a scenario, the mill would be operated on a nonprofit basis. That is, there would be no profit in producing ground feed. Each of the three collaborators would receive the product at a cost basis. ValAdCo and Golden Oval would use it to feed animals being produced, and Co-op Country would provide milled product to customers, generating a profit.

The project was approved by the three boards, and organizers worked with the St. Paul Bank for Cooperatives, obtaining a loan to build the facility. Financing was supported by a TIF through the City of Renville and \$750,000.00 in equity advanced by the three participants. The total cost of the mill was approximately \$1.6 million. Currently, United Mills employs 13 Renville area residents, and processes 4,000,000 bushels of corn per year, equivalent to an annual process of 21 unit trains, each with 54 hopper cars.

Such a project had simply not been considered before, much less accomplished. While elevators merged with one another, and new co-ops were formed, the collaborative venture between a value-added co-op and a traditional co-op was a new idea. United Mills is governed by a nine-member board, three members each from Co-op Country, Golden Oval, and ValAdCo.

## **Golden Oval's Production**

Golden Oval's strategy is what the co-op refers to as a "Totally Integrated Food System." This system begins with a focus on the grain that shareholders produce for milling. Through the Differentiated Global Positioning Satellites (DGPS) system, members apply fertilizer effectively, enhancing the nutritional value of the grain that is used for feed. Co-op Country makes its agronomy department available to producers, making certain that the finest quality corn is grown for use in feed. The agronomy department does soil testing and has DGPS equipment available to apply crop nutrients to support the next crop. All grain produced by members is handled through Co-op Country Farmers Elevator, the grain handler for the co-op. Co-op Country tests the grain delivered and verifies that only quality corn is delivered to the feed mill. United Mills, the collaborative effort of Co-op Country, ValAdCo, and Golden Oval, mills and blends feed, providing a consistent level of quality grain for feed.

Because Golden Oval has a management contract with The Pullet Connection, the pullets are raised and delivered to the co-op from a single source, reducing the risk of disease. Through its contract with the owner of The Pullet Connection, Golden Oval has maintained the right to determine the rations and health programs of the pullets delivered to the laying barns at 16 to 18 weeks of age.

An important part of the integrated food system is the egg production. The laying barns are designed to provide comfort for the chickens and the workers. Outside air is pulled down from ceiling vents over the cages, providing circulation for the birds. This moving air continues down over the litter and is drawn out through fans. This process provides fresh moving air for the birds, and at the same time, dries the litter that has collected in the level beneath the cages. The litter is later removed for fertilizer, providing nitrogen, phosphorus, and potassium to area fields.

The environment of each of the 16 barns is monitored by computer that regulates movement of air and temperature. Water and feed for each barn is measured on a daily basis and is compared with the number of eggs produced. Veterinarians check the flocks every six weeks to ensure the health of the birds. An aspect of the co-op's efficiency is its in-line production system. Eggs that leave the laying barns travel by conveyor through a washing, breaking, and processing system. The linking of the laying barns with the breaking and cooling processes results in a savings of transportation and time.

From the barns the eggs move into an area where they are washed, candled, and inspected for breakage and cleanliness. One of the technological features of Golden Oval's production is the efficiency of the breaking process. Six egg breakers can break and separate 216,000 eggs per hour. A portion of egg production is shipped to food processors whole, while a portion is separated and then yolks and whites are blended to customer specifications. The quality of the egg product is maintained through a chilling process as it is pumped through stainless steel pipelines. Within a few minutes, the temperature of the eggs is dropped to approximately 35 degrees.

Much of the co-op's success is because of the quality of the egg that is delivered to grocery stores, restaurants, and kitchens. According to Persson, only six hours elapses from the time an egg is laid in the co-op's facilities, brought to the egg breaking facility, cooled, and put on the truck. The speed of this process results in a fresh, high-quality egg product. Trucks are sanitized before and after each load, assuring a safe, healthy food product. A USDA official oversees all aspects of the egg breaking and loading process.

Another segment of the Golden Oval system is the production of starter pullets. The co-op has contracted with Barb Frank, owner and operator of The Pullet Connection, to raise pullets that are delivered to Golden Oval. This farmer, who is a member of Golden Oval, redirected her efforts from crop production to the raising of pullets for Golden Oval. She contracts with Golden Oval to produce replacement birds and is paid on a per bird basis. The "closed system" that has been contracted between the producer and the co-op eliminates disease spread among other birds. Feed from United Mills is also used for this operation and as the feed source for the laying hens.

### **Golden Oval and the Community**

Farmer-owned co-ops have spent energy and resources in dealing with a negative philosophy that has resulted in nationally high environmental standards promulgated by the State of Minnesota. The management of Golden Oval has undertaken an aggressive program to maintain an environmentally sound facility. Rodents, mites, and flies are controlled through daily checks. Management has incorporated natural biological controls through beneficial insects that control unwanted insect populations. While Golden Oval has met state environmental standards, pressure from environmental groups continues, and the co-op now directs its expansion efforts to areas where political pressure is not as great. Because of neighborhood concern, an expansion of the present facility from 2,000,000 to 2,750,000 hens is being postponed, and the co-op is developing expansion facilities in Iowa. Golden Oval continues to strive to maintain a Good Neighbor Policy with its neighbors and the city. The efforts of the co-op to mitigate odor and fly problems is acknowledged, and the positive economic impact on the community is recognized.

The expansion effort into Iowa requires additional membership investment through the sale of additional equity stock and loans. New members will be expected to sign a Uniform Marketing Agreement that renews each year. Golden Oval is working through AgVentures, an association of farmers and agribusinesses in northern Iowa. Their goal is to develop value-added businesses and, in doing so, they are organizing informational meetings in Iowa allowing the co-op to explain the potential of investment.

### **Value to Members and the Community**

Dana Persson is candid about the motivation for the co-op and for individual members to join value-added co-ops. While the development of value-added co-ops is a source of economic development for the community, its prime purpose is to enhance profit for its members, he points out. Projects such as Golden Oval have received support from the local community, however, and through combined effort, have provided profit and growth for Co-op Country, individual members of the co-op, and the City of Renville.

Members of value-added co-ops share in the profit of the cooperative. The amount of profit is determined when expenses are deducted from sales. Based on the number of shares owned, members share in that profit. Co-op Country, as a member of the value-added co-op, has a large stake in Golden Oval and has shared in Golden Oval's profit of more than \$3 million. The 411 individual members also share in the profits, which in 1998 included a value-added payment for their corn. In that year, the average market price for corn at Co-op Country was \$2.19; however, Golden Oval members received \$3.77, or a value-added payment of \$1.58.

According to a report from the USDA Minnesota Agricultural Statistics Service, the average market value of agricultural products sold in 1997 in Renville County had increased 59 percent from 1992. Livestock sales accounted for 55 percent of the market value. The market value of agricultural products sold on an average per farm increased 86 percent from 1992. Neighboring Redwood County demonstrated a 36 percent market value increase with a market value of agricultural products sold increasing 46 percent in the same period. The development of value-added co-ops has affected livestock production in these two counties and has allowed producers to add value to the grains that they produce.

### **Golden Oval and Community Development**

The City of Renville and the surrounding area has profited from the development and operation of value-added co-ops such as Golden Oval. According to Persson, about \$14 million is spent annually in the operation of Golden Oval in terms of payroll, shareholder payments, feed, supplies, and other operating expenses. Local, state and federal taxes generated by the co-op total more than \$1 million, a significant portion of which is property tax used to support schools and local government. He also points to the health of Main Street Renville where businesses provide a full range of goods and services that include medical and dental services, two hardware stores, a grocery store, a pharmacy, two florists, and two restaurants. Renville businesses provide basic goods and services frequently unavailable in small communities. In some cases, competition between related businesses results in competitive pricing. A golf course opened in May of 1999 has added to the quality of life in the area. Golden Oval's contribution to the economy can be demonstrated through the co-op's employment of approximately 80 employees.

### **Success of Golden Oval**

Golden Oval is a success story, and according to its 1998 annual report, the co-op closed its fiscal year August 31, 1998, with 30 consecutive profitable months. In 1998, the co-op had produced more than 57 million pounds of eggs, an increase of 900,000 pounds from the previous year. Much of the success is due to the sound planning of board and management. Egg production of 7,156,819 pounds in 1995 increased to 57,180,658 pounds in 1998. Positive reports from the *American Journal of Clinical Nutrition* have resulted in increased egg consumption. Trends that include consumer habits of eating greater numbers of meals away from home and increased demand for convenience have bolstered the industry. The per capita

consumption of eggs has increased after a drop in the early 1990s. The low of 236 eggs per capita consumption in 1985 has now grown to 245.7.

The success of production, management, and marketing that has resulted in greater profit has created a gain in investors' initial investment. Share prices for members have fluctuated from the initial \$3.50 purchase price per share; they have sold from \$4.60 per share to as high as \$5.42.<sup>2</sup> This increase in value has resulted in a more positive balance sheet for producer members.

According to Delmar Mulder, Chair of the Golden Oval board of directors, value-added co-ops such as Golden Oval are an important component in the preservation of family farms. Now a proven investment, the only regret of some members of the co-op is that they cannot sell more corn to the co-op.

The lessons learned by Renville County agricultural producers are ongoing. The agricultural community has succeeded in organizing and operating value-added co-ops, and whether motivation is for personal profit or for community development, both the community and producers have benefitted. There are hard lessons to be learned in risk management, and while effort never guarantees success, value-added co-op members believe that failure is often the result of inaction. This understanding that cooperative effort has the potential for success has resulted from years of experience. For others who have not worked through the challenges and for whom this experience is not first-hand, the lessons may come more slowly.

A fragment of resentment of certain aspects of co-ops such as Golden Oval remains with some who often are opposed to value-added co-ops. According to Lee Eggerstrom (1994), a writer for the St. Paul Pioneer Press, opposition is found in those anxious about the sociological and environmental issues, and others whose philosophies are difficult to identify. Eggerstrom believes that many of these are the "well-intentioned advocates of a family farm image who want to perpetuate a peasant society that has disappeared from the landscape, but not from agrarian myth" (40).

Projects such as Golden Oval give producers a reason for pride as they find that they have the potential of taking control of their future; however, such projects do not come easily. Planners must do their homework and consider the opportunities and the challenges of each project. A level of independence that was enjoyed by the early co-op members of Renville County is now balanced with the understanding of the value of cooperation, as producers work together, utilizing a desire to succeed, hard work, and a vision of success for themselves and their communities.

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<sup>2</sup>This price is based on a per bushel price, and purchased and sold on a 1,000 bushel basis, to \$3,500 for a 1,000 bushel contract.

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