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# New Generation Cooperatives: *Case Study*

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A Short History of the Idea and the Enterprise*

*by Igor Kotov*



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## **New Generation Cooperatives: A Short History of the Idea and the Enterprise<sup>1</sup>**

*by Igor Kotov*

The development of cooperatives in the Upper Midwest from the 1970s through the 1990s provides vivid examples of several new phenomena and trends. Among the most important are the New Generation Cooperatives (NGCs). The term, used since the mid-1990s, was proposed by the Centre for the Study of Cooperatives, University of Saskatchewan, Canada (Stefanson, Fulton, and Harris 1995, 1-7). These NGCs represent the newest wave of U.S. co-ops. While earlier generations had emerged in the 1900s, the 1920s, and again in the 1940s, NGCs have several features that distinguish them from traditional farmers' co-ops.

First, their major focus is value-added processing, which represents a departure from the main objective of commodity marketing held by predecessors. NGCs integrate the entire venture of growing crops or feeding livestock, processing farmers' products, and producing "ready for sale and consumption foods." Building such an enterprise requires equity investment prior to establishing delivery rights. Equity shares in NGCs are higher than in traditional co-ops, and each share entitles a member to deliver one unit of a farm product (e.g., one bushel of wheat) to the co-op and requires the co-op to take delivery of this product.

Thus, another major difference between traditional co-ops and NGCs is how the organizations are capitalized. According to Bill Nelson, director of the North Dakota Center for Cooperatives and an active promoter of NGCs, "In a new generation co-op you capitalize it in advance and then you use it. In the traditional co-op, you used it and they retained some of the profit margin to maintain the co-op" (Aksamit 1999, E2). Initially, it may be easier for a farmer to be a member of a traditional co-op since membership in a NGC has more obligations and is more expensive.

Another feature distinguishing NGCs is restricted or limited membership. The number of equity shares is limited by the requirements to build a plant or process a product. The admission of members stops after all shares have been sold. On the other hand, NGCs preserve some fundamentals of traditional co-op structures. For example, decisions at the membership meetings are made according to the principle "one member, one vote"; excess earnings are distributed among members as dividends; and the board of directors is elected from the members by the membership.

While NGCs have grown in many states and involve livestock, grain, fruits, and vegetables, the Great Plains states were the early leaders in the development of NGCs and have some of the most successful ventures. This case study traces out the history of co-ops in these states and

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<sup>1</sup> This case study would have been impossible without help from the staff of the Quentin Burdock Center for Cooperatives at the Agricultural Economics Department of the North Dakota State University: Bill Nelson, Frayne Olson, Kathy Doyle, and Ed Janzen.

provides insights into reasons why the NGCs became popular in the 1970s as well as the 1990s. The presentation has three main sections.

1. The adverse conditions faced by farmers as the processing industry grew and represented more and more of consumer spending for food items are discussed.
2. The shift to the co-op movement to control the cost of inputs and bring essential services to rural areas is presented along with the groundwork it laid for the NGCs to come later.
3. An overview of several NGCs is presented to provide a backdrop for more extensive discussions of specific NGCs to come later in this report.

### **History of Cooperatives**

The concept and practices of co-ops in general and for NGCs in particular have a long and complicated history. Since the founding of the United States, and until the early 1900s, agriculture was the nation's leading industry. A majority of the population was engaged in farming; at the same time, however, rural producers created the initial capital for industrial development in the United States.

The success of agriculture meant major changes for farmers' in their work and lives. Farming ceased to be a primitive occupation as agricultural producers gained access to technology previously enjoyed only by city residents. Concurrently, farming became less and less profitable compared with other industries and occupations because technology increased production levels and reduced costs without an increase in commodity prices. This trend is vividly reflected in the so-called "cost-price squeeze."

Farmers found the prices for their products lower compared with the nonfarm commodities they had to buy. In 1923, Secretary of Agriculture Henry A. Wallace pointed out that a suit of clothes which cost a North Dakota farmer 21 bushels of wheat in 1913 cost 31 bushels ten years later. Using the purchasing power of several basic farm commodities in 1913 as 100, the farm price index had dropped to 75 in 1921 (Fite and Reese 1965, 559).

Another problem was the obvious disparity in distribution of incomes resulting from the sales of final food commodities among those who produced, processed, delivered, and sold those goods. In 1910, \$.15 of every dollar generated in agriculture went to those who delivered inputs necessary for farmers—seeds, equipment, fertilizers, and so on. The farmer's share was \$.41, and an additional \$.44 was spent on transportation, processing, wholesale, and retail businesses. By 1990, however, the farmer's share had shrunk to \$.09 while the agricultural suppliers received \$.24, and the processing and marketing share rose to \$.67 (Nadeau and Thompson 1996, 15).

Consequently, farming is no longer as attractive a business. This negative trend has been felt especially in the Upper Midwest states whose economies traditionally have relied heavily on agriculture. The number of farms and the rural population have steadily declined during the past century.

The declines in agriculture are not just an economic change; they are the phasing out of a cornerstone of American life. Noted Arthur Capper (1931), a founding father of the 1922 Capper-Volstead Act, “Farming is more than a business. It is more than an art; it is a philosophy of life” (52). The Capper-Volstead Act almost completely exempted farmers’ co-ops from the antitrust laws and gave them substantial privileges compared with noncooperative big businesses.

The 20th century farmer’s problem appears to be relatively simple. Agricultural producers should seek a bigger share of the consumer dollar and move from selling commodities to selling ingredients or branded products. That goal is not easily realized, however, and since the late 1800s, there have been many attempts to find a way out of the above-mentioned “cost-price squeeze” and income disparity. Political, economical, cultural, and technological strategies were tried, but mostly with little success.

### **Political Action**

Decisive steps were taken by farmers in the Upper Midwest using the vigorous efforts of the Nonpartisan League, one of the most famous of the U.S. farmers’ organizations. The grandparents and great grandparents of many current North Dakota farmers were active in the League from 1915 to 1922. According to J. H. Worst, former president of the then North Dakota Agricultural College in Fargo, in 1916, farmers in the state lost \$55 million because of unfair practices by middlemen in the grain trade (Morlan 1955, 3).

Farmers listened intently to presentations at numerous Nonpartisan League meetings, and those explanations may be timeless. The Nonpartisan League spokesman said, ““Here is a dollar. For every dollar worth of stuff you raise on this farm you get just 46 cents.’ The speaker counted out one quarter, two dimes and a penny. ‘This is what you get. But here—laying in another pile the other quarter, dime, three nickels, and four pennies—is what the other fellow gets—the fellow who didn’t put in a day plowing and planting and harvesting. Now what you want is more of this pile. You want your share of that dollar the consumer pays for what you raise by backbreaking work. The other fellow gobbles this because he is organized. He controls the market—he makes the laws—he gets the money”” (Morlan 1955, 30).

A majority of leaders in the Nonpartisan League preferred political action to solve farmers’ problems and they succeeded in state and federal elections. Nonpartisan League officers were instrumental in establishing several public elevators and mills in the state which, to some degree, eliminated the disadvantages created by the efforts of middlemen. These efforts were created from the top, however; farmers themselves didn’t participate in the enterprises with their property. Consequently, when the economy improved after 1922, prices proposed by private buyers of farm commodities increased and farmers ceased to support the Nonpartisan League’s initiatives. Instead, they turned to their “main foe”—the notorious middleman.

### **Development of Cooperatives**

Farmers’ co-ops offered another solution to the food consumer’s dollar share problem. In the late 1800s, agricultural producers began to capture additional links in the “farmer-consumer

chain” by creating value-added processing co-op. The first enterprises of this type were co-op creameries that processed farmers’ milk into cream, butter, and cheese. The profits were shared among farmers.

The first co-op creamery in Minnesota was organized in 1890. By the early 1920s, the Minnesota Cooperative Creamers’ Association had been founded as a sales and service association. It helped members to manufacture the highest quality butter, to standardize it in composition and quality, and to secure the lowest possible freight rates to haul the butter to market. It also created an increased demand and a higher price through advertising to develop new markets. Co-op creameries in Minnesota proved their profitability for farmer-members. Throughout the 1920s, the co-op creameries paid farmers \$.05-\$.10 more per pound of butterfat than was paid in communities without co-op creameries (McGuire 1925, 32-36). Thus, these co-ops added value to the farmers’ product, in this case milk, and brought a certain part of that added value to milk producers, giving them a larger share of the consumer’s dollar.

Another example of the success for a co-op creamery success in the Upper Midwest is in North Dakota. The oldest co-op creamery in the state was started in 1908, but most were organized in the late 1920s. They successfully survived during the Depression and the drought of the 1930s (DAL 1943, 3-6). By the end of the decade, North Dakota co-op creameries reported fair financial returns, which improved even more during subsequent decades.

In 1943, co-op creameries in North Dakota were second among other co-ops with the average business transaction priced at \$655 per stockholder. Co-op elevators led the co-op movement with stock priced at \$1,609 per share (DAL 1943, 11, 8). The co-op creameries provided convenient investments. The latter proved to be attractive for large food corporations as well and resulted in the growth of competition that led to co-op creameries being squeezed out of business during the 1950-1960s.

The idea of a value-added co-op business or of vertical integration in agriculture represented by co-ops has been actively promoted by farm activists and political leaders since the 1920s. Many noted that the early American farms were highly integrated since many foods and other goods were homemade. Until farmers had a surplus beyond their own needs, they had nothing to sell to improve their standard of living.

Industrialization changed the situation. Farming became primarily production agriculture, while processing, marketing, and farm services were provided by others for a profit. Food production turned into a new type of industry, with successful corporations processing and marketing agricultural commodities. The question was (and still is), “will agriculture be integrated by and for the benefit of the farmers, or for the benefit of suppliers, processors, and distributors at the expense of farmers?”

Sugar beet growers in the Red River Valley first attempted to create processing facilities in the early 1920s through an initiative by H. A. Douglas, president of the privately owned Minnesota Sugar. By 1923, the total acreage for sugar beets had grown sufficiently and he declared that his company would spend \$1 million on a beet processing plant. This sum was not

enough for the construction, however. Douglas proposed that farmers raise another half million dollars in stock capital.

By early 1924, commercial clubs in Grand Forks, North Dakota, and the surrounding area had sold stock worth \$300,000 and borrowed another \$100,000. Soon the Red River Sugar Company was established to manage construction of the new plant. As a stock enterprise, it might be seen as a first attempt to create farmer-owned processing facilities for their crops.

Soon Douglas received a proposal from a much larger company, the American Beet Sugar Company (later it was renamed American Crystal Company), to sell the company's existing plants as well as all the assets of the nascent Red River Sugar Company for almost \$3.5 million. The deal was completed in March 1925. The new owner managed the construction of the sugar beet processing plant in Grand Forks, which was completed by the fall of 1926 (Shoptaugh 1997, 18-20). The money raised by farmers and other potential stockholders was returned because the beet growers had not created a co-op; rather, they had obtained excellent facilities and profitable relations with a private business. These relations remained good until the 1960s.

During the Great Depression, several federal acts were passed containing substantial measures that provided financial support to farmers. Such support was furnished to sugar beet growers by the Jones-Costigan Act (the Sugar Act) signed by President Franklin D. Roosevelt in May 1934. Farmers received federal payments for each unit of beets based on market prices that sometimes were extremely low. The majority of farmers favored such supports, but many, as well as officers in the co-ops, understood not only the usefulness of these payments, but also the possible hazards. H. J. Beernink, president of the National Council of Farmers Cooperatives, noted in 1958, "The farmer, working through his cooperative in an integrated service, has a chance to be competitive in today's business world. . . .The controversial government price support program is nothing more than a contract to buy farm commodities at a stipulated price" (3).

### **Role of Price Supports**

The history of North Dakota agriculture shows that the government's price support system cannot stop negative drifts in commodity prices. Unfortunately, during the 1960s and 1970s, most of the efforts of North Dakota farm organizations were directed towards obtaining infusions of state and federal funds.

Since the early 1950s, national farm referendums were held to assess the public's attitude regarding the federal price support system. North Dakota farmers supported the system more often than the average American farmer in these surveys. For instance, during the 1957 referendum, 98 percent of North Dakota farmers voted "yes" for a federal government price support at 75 percent of parity. This meant farmers would receive three-quarters of the actual cost of their crops from the federal government. Nationally, only 86 percent of farmers voted in favor of the supports (Conrad and Conrad 1976, 183). The same attitudes were reflected in the following decade. Strengthening the government's financial support for farmers was a focus of longtime North Dakota Senator, Quentin Burdock, who received overwhelming support from farmers during his many political campaigns.

Growing federal support for North Dakota farmers did not stop the negative financial trends, however. From 1959-1964, approximately 6,000 agricultural producers in the state quit farming (Conrad and Conrad 1976, 217). Moreover, there is evidence to support the hypothesis that the financial support started to undermine farmers' incentives to be self-reliant and self-starters.

Governmental attitudes toward agriculture changed. The costly Vietnam War and NASA's expensive mission to reach the moon pressured the federal budget, and price supports had dropped to 65 percent of parity by December 1970. A majority of North Dakota farmers had stopped buying farm machinery suggesting that farmers had begun to rely more and more on governmental support payments. However, the situation for American farmers, especially North Dakota wheat growers, did change for the better after 1972, when the Soviet Union started buying huge amounts of American grain; these purchases were curtailed in the late 1970s, however.

### **New Generation Cooperative Successes**

By contrast, other developments in North Dakota in the 1960s had brought farmers new hope. Alternative approaches to address farmers' financial problems started to emerge among Red River Valley sugar beet growers. By 1960, they were satisfied with their contracts for sugar beet deliveries to the privately owned American Crystal Company, one of the largest sugar producers in the world.

But a few years later, beet growers feared American Crystal's business practices might be hampered by the composition of its board of directors. A large block of the American Crystal stock was held by the Boettcher family in Denver, Colorado. This family controlled the Boettcher Foundation, a large charitable organization concerned with philanthropy within the environs of Denver. Some of American Crystal's corporate profits were being transferred to the Boettcher Foundation for various causes. While legal, these transfers were contrary to the best interests of farmers who wanted profits to be invested in the sugar business (Shoptaugh 1997, 129-130). This situation seemed to indicate that full reliance on private business, even though successful and profitable for farmers, had potential pitfalls. Farmers depend heavily on such a business because it is a main foundation for their economy. On the contrary, private investors usually have more options than farmers and can easily reject these interests.

The Red River Valley farmers/beet growers did not seek government intervention but, instead, took action to buy the processing plant. A prominent expert on remuneration of financially ill businesses, Richard Barry (1981) of Fargo, raised the NGC idea:

In the fall of 1963 one day I asked a farmer from the Wahpeton-Breckenridge area, which did not have a refinery outlet, about an idea I had to raise millions of dollars in equity money. He said he'd be happy to invest approximately \$1.00 per ton in equity capital each year for ten years if I could teach him and other farmers how, as a group, they could own their own sugar factory. (29)

By the fall of 1964, 2,000 farmers in the Red River Valley organized development groups to obtain new factories. They were not growing sugar beets at that time, but they would consider converting 10-15 percent of their acreage to sugar beet production. Their major obstacle was attracting companies with the know-how and sufficient capital to build additional plants (Aksamit 1999, E2). Development of a value-added co-op owned by Red River Valley growers started in 1967, but it took six years to reach fruition. The most prominent role in this case was played by Aldrich Bloomquist of Moorhead, who had initiated the effort that resulted in growers purchasing the investor-owned sugar company.

Farmers formally acquired the American Crystal Sugar Company from the Boettchers on February 21, 1973, with a transfer of ownership to the producers' organization, Crystal Growers Corporation. Growers raised \$20 million of the equity capital at the rate of \$100 per acre. Further financing came from the St. Paul Bank for Cooperatives, a bank specializing in granting credit to cooperative enterprises (Egerstrom 1994, 148-49). Crystal Growers Corporation provided a model for future NGCs, started by farmers to achieve a better price for commodities and more control of their businesses.

About the same time, that the American Crystal co-op was being formed, two other groups of farmers were developing plans to obtain processing facilities to be operated as co-ops. In Wahpeton, North Dakota, new sugar beet growers were considering entry into the processing industry by constructing a facility. In 1974, Minn-Dak Farmers Cooperative began operating with the newest sugar beet processing plant in the country. Like the American Crystal efforts, the Wahpeton group secured commitments from farmers to invest \$200 for every acre planted, giving them one share of stock for every acre committed to the co-op. Additional debt financing was supplied by St. Paul's Bank for Cooperatives after growers signed a 15-year agreement with the co-op.

Near Renville, Minnesota, sugar beets were planted sparingly and nearly abandoned in 1971 when then privately-owned American Crystal closed the processing plant in Chaska. "We had the equipment and the know-how, but not the processing facility," said Larry Johnson, a local beet farmer. He and other members of a local growers' association persuaded neighboring farmers to add sugar beets to their operations. For every \$200 per acre invested, growers received one share of stock in the co-op. By the spring of 1975, 50,000 acres of sugar beets were sprouting and soon the Southern Minnesota Beet Sugar Cooperative operated its processing facility (Jacobs 1990, 6).

This NGC, which was incorporated in 1975, did not do as well as the American Crystal co-op. Because of substantial losses and ineffective management, the banks foreclosed on the co-op's loan in 1978. The banks had two choices: (1) to sell off the assets, or (2) to sell the plant back to the farmers at a greatly reduced price. The banks chose the latter. Consequently, the farmers became the real owners of the plant, and the co-op got a second start. The co-op has been profitable ever since (Nadeau and Thompson 1996, 18).

The 1980s brought a lull in co-op development in the Upper Midwest. The situation may have resulted from increasing economic difficulties and sharp budget cuts to agriculture brought about by policies of the Reagan administration and the national recession. By the end of the

decade, an obvious economic and, to a certain degree, social decline was evident in North Dakota. The state ended the 1980s with 634,000 people, down 18,000 from 1970. Most of the loss was in the rural areas (Nillsson 1997, 32). It was clear that something new and effective was needed to help North Dakota agriculture.

Even during those difficult times, however, the sugar beet processing facilities of three value-added co-ops—American Crystal Sugar Company, Minn-Dak Farmers Cooperative, and Southern Minnesota Beet Sugar Cooperative—helped provide jobs and economic stability for many small towns in the region. While the downturn in the farm economy during the mid-1980s adversely affected many agriculturally based communities of rural Minnesota and North Dakota, the sugar beet industry remained strong and mitigated the effects of the farm downturn by pumping badly needed dollars into the rural economy. In six of the seven communities with a sugar beet processing facility, the co-ops were the largest employers and taxpayers (Jacobs 1990, 4-5).

The business culture during the first half of the 1990s in the Upper Great Plains has been called “cooperative fever” because of how rapidly value-added co-ops were being created, developed, and distributed. By the end of the decade, 20 NGCs were operational in Upper Midwestern states. Thus far, a majority of them are operating successfully.

The overall impact of the co-ops on many local communities has been significant. Successful NGCs not only improve incomes for farmers, they generate jobs for the nonfarm population too. The number of nonfarm employees hired by an NGC varies. However, the Sunrise Energy Cooperative in Blain, Iowa, has hired 14 full-time nonfarm workers (Lucas 1999). Other cooperatives such as Golden Oval Eggs in Renville, Minnesota, have hired over 60 full-time employees (Persson 1999). In addition to generating higher farm incomes and nonfarm jobs, NGCs contribute to the local tax base and provide job opportunities for young, educated people.

NGCs in the Upper Midwest process most commodities produced by farmers: wheat, soybeans, sugar beets, meat, poultry, and dairy products. They also produce different products as well—from pasta and cheese to ethanol. The following success stories may motivate other agricultural producers to form similar co-op structures.

### **Pasta Growers**

One of the most successful of the value-added co-ops operating in the Upper Midwest is the Dakota Growers Pasta Company (DGPC), owned by approximately 1,000 wheat farmers from North Dakota, western Minnesota, and eastern Montana. The NGC has a state-of-the-art, \$40 million pasta factory outside of Carrington, North Dakota. Groundbreaking for the plant was held July 9, 1992, and it began operation in November 1993. In December 1993, *Pasta Growers* brand pasta products arrived on store shelves across North Dakota. In the coming months, they were distributed nationally. The plant created 180 new jobs in Carrington. All of the wheat processed at the plant is provided by farmer-members. According to Jack Dalrymple, chairman of the board of directors, the impetus to build the plant came from a steering committee formed by the U.S. Durum Growers Association.

In 1995, DGPC produced about 100 million pounds of pasta in 50 different varieties under its own brand. After only its second year of operation, the co-op generated a profit of \$.46 per share, distributing \$.31 per share in cash to farmer shareholders and retaining the remainder for operating reserves. The farmer-members not only received the current market price for the Durham wheat sold to the co-op, but they also earned a 20 percent annual return on their co-op investment.

In early 1996, the co-op issued new equity stock in order to finance a \$5 million expansion to double the milling capacity of the plant. The wheat growers had so much confidence in their co-op that sales of stock far exceeded the stock sales target (Nadeau and Thompson 1996, 19). In 1997, DGPC doubled its milling and pasta production capacity, and this year the co-op acquired Primo Piatto, Inc., a pasta processing company with two plants in the Minneapolis area. DGPC is now constructing a \$10 million mill next to the Carrington mill to keep pace with its increased processing demands (Sorenson 1998, 9). DGPC shares, originally offered at \$3.85 each, currently sell for \$10 (Tonneson 1999, 8). As Randall Torgerson (1994), assistant administrator of the U.S. Department of Agriculture Cooperative Services, noted, “it had been the success of the pasta growers cooperative which breathed new life into other cooperative initiatives in North Dakota, and generated the above-mentioned co-op fever” (12).

### **Heartland Grain Fuels**

Founded in 1993, Heartland Grain Fuels is a joint venture involving two co-ops—South Dakota Wheat Growers and Farmland Industries—that operates the largest ethanol operation in South Dakota. Its Aberdeen plant processes 6,900 bushels of corn a day, seven days a week, producing more than 6 million gallons of ethanol annually. In addition to providing a new market for corn, the plant created 23 jobs and an \$800,000 payroll in the community (Parsons 1995, 6).

Certainly, the success of NGCs is not guaranteed from the start. There are examples of unsuccessful NGCs that had to quit operations after being unable to meet market realities and members’ needs. The next section expands on this cautionary note to describe some NGC failures and the characteristics of NGC member and nonmembers farmers.

### **Evaluating Success and Failure Among NGCs**

Northern Lights Vegetable Cooperative of Broten, Minnesota, formed by 65 vegetable producers as part of a joint venture with privately owned Patterson Frozen Foods, operated a frozen pea and sweet corn processing plant. In May 1998, the co-op folded and sold the plant to Lakeside Foods, a corporation based in Manitowoc, Wisconsin, that processes and cans food products for sale to private label companies.

Some of the co-ops’ former members chose individual production contracts with Lakeside SnoFlake Products Cooperative in Oslo, Minnesota (Sorenson 1998, 11). This co-op went bankrupt in the fall of 1997, a year after 60 producers bought a plant in Oslo, to process carrots. Under pressure from a depressed market, the co-op tried to combine its efforts with similar developing ventures in Hillsboro, Hatton, and Casselton, North Dakota, but without success.

Board member Tom Osowski identified the main downfall as haste: “We hurried too much. But maybe seeing our mistakes will make others more cautious” (Sorenson 1998, 12).

These and other NGC failures have not spread negative attitudes about co-ops, however. Farmers understand the value of co-ops for them, while at the same time realize that a co-op is not in itself the panacea for their problems. Solutions may involve good, profitable, fairly managed co-ops as well as completely different ones. As a United Spring Wheat Growers co-op member, Montana farmer Larry Johnson said, “You need capital to make the business work. Farmers who form these closed co-ops are able to gather huge amounts of cash and hire the people necessary to form the processing side of the business.” (Getting together: Farm forum roundtable 1999, 17). At the same time, as Steve Hofing, agriculture analyst of Savoy, Illinois, noted about the possibilities of NGCs, “There isn’t going to be a windfall. The key is to determine what specifications your customer needs and whether you can serve them” (17).

Sociological investigations that have included interviews with leaders and members of the NGCs document the stability and usefulness of this business structure. Kibbe (1996) and later Olson, Kibbe, and Olson (1998, 4) of North Dakota State University, surveyed more than 500 North Dakota farmers using a questionnaire sent to members and nonmembers of value-added co-ops. Nonmembers more strongly agreed with statements critical of the NGCs such as “Investments required from the farmers for joining value-added co-op are too high for them”; “contract co-ops benefit only the wealthy producers”; “delivery contracts are too strict”; “farmers should not own food companies”; “the value-added contract co-ops offer inferior quality products.” Nonmembers were also less confident regarding the contract co-ops’ abilities to compete successfully with investor-owned firms (81-82). These findings indicate that participation in value-added co-ops helps farmers overcome a prejudice against co-ops. The educational level of NGC members participating in the survey was higher than the nonmembers. Approximately 41 percent of the co-op members had a college degree compared with 18 percent of nonmembers (Olson, Kibbe, and Goreham 1998, 2).

For this report, a brief investigation regarding attitudes of Upper Midwest NGC leaders was undertaken. A short questionnaire was given to CEOs and board members of approximately 20 NGCs during an executive training program for leaders of New Generation Processing Cooperatives in March 1999 in Alexandria, Minnesota. Nineteen answer sheets were returned. Most respondents had farmed and belonged to the NGCs for more than ten years. Almost half of them noted general unfavorable economic changes for farmers as the main reason for starting co-ops. One-third of respondents reported that private owners could not run the processing plants successfully so co-ops were formed. All the respondents were convinced that the NGCs had proven advantageous for their members. Only 10 percent of the respondents noted that NGC members would leave the co-op if market prices proposed by private buyers started rising substantially.

Recent developments in the Upper Great Plains confirm the popularity of value-added co-ops among farmers. One example is activity in the small South Dakota community of Pollock. The farmers decided to organize the Pollock Area Dairy Cooperative, which is designed not only to market milk but also to run a local cheese plant that is currently at less-than-full capacity. Both

the residents of Pollock and surrounding farmers are interested in the co-op. The co-op will create additional jobs and provide farmers with an opportunity to sell milk more profitably and receive additional money from the cheese plant. The initial steps show hope for the future of the co-op. An informational meeting held a year ago brought \$17,000 in seed money to start the co-op. The city then received a credit of \$30,000 to the would-be co-op to purchase the site for the dairy facility (Johnson 1999, 6b).

## **Conclusions**

The future of the NGC movement depends on the future of agriculture in America and throughout the world. On the eve of the new millennium, agricultural techniques have come close to those of big industries (Saxowsky and Duncan 1998, 5-10). This means that technically, as well as economically, agribusiness may need to be run more like big industries. More success is expected when the entire chain of growing, processing to the stage of ready-for-consumption product, and marketing is integrated into a single unit—not only technologically but also economically. This means vertical integration will become the norm for farmers' co-ops. Even “old generation,” traditional agricultural co-ops are trying more vertical integration in food processing. Greater integration will provide co-ops with additional markets for products, will hopefully enhance their share of the consumer dollar, and will help them maintain the quality that leads to consumer acceptability of produced goods. One of the problems that may be difficult to solve in the near future is vertical integration of farmers' co-ops into food retailing. The extreme competitiveness of this business will make it hard for co-ops.

Many co-op leaders in the 1990s were well-aware of the necessity to develop value-added co-ops. As Jack Gherty, Land O'Lakes President, said, “We are operating in the most competitive and value-oriented economy in history. To be successful in this economy, business organizations—and cooperatives are business organizations—must continually improve their ability to add value to their products, services and people” (Adding value essential for cooperative survival 1993, 11). In the case of successful value-added co-ops, the benefits for farmers are clear: a share in processing earnings and facility ownership, improved market entry and development, access to additional production know-how, genetic sourcing, enhanced contract longevity, the availability of additional financial options, and increased insulation from market variations.

Farmers have two alternatives: (1) they can find profitable agreements with food-processing and retailing investor-owned corporations; however, that means the co-op has to surrender some control to so-called “big business”; or (2) connected with the development of an NGC. Farmers and residents in rural communities may be motivated first by a desire to preserve the social and economic fabric of rural America rather than merely to make money. That may be the core principle driving the NGC movement to further success in the next millennium.

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