



# How-to Manual for Forming a Farm Marketing Cooperative

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## How-to manual for forming a farm marketing cooperative

Adirondack Grazers is a cooperative that formed in 2012 to assist farmers in Washington County, NY with finding a way to market their beef for a reasonable and sustainable price. This is a how-to manual highlighting some of their learning as they traveled the road of independent farm producer to potential coop member to committed member receiving value.

There are a number of resources available that describe how to form a cooperative. What makes this document special is some of the specific issues that became part of the real-life discussion throughout the process of forming Adirondack Grazers. Good or bad, this info may assist another farmer group who are thinking about creating this type of system.

### Why would a group of farmers think about forming a cooperative?

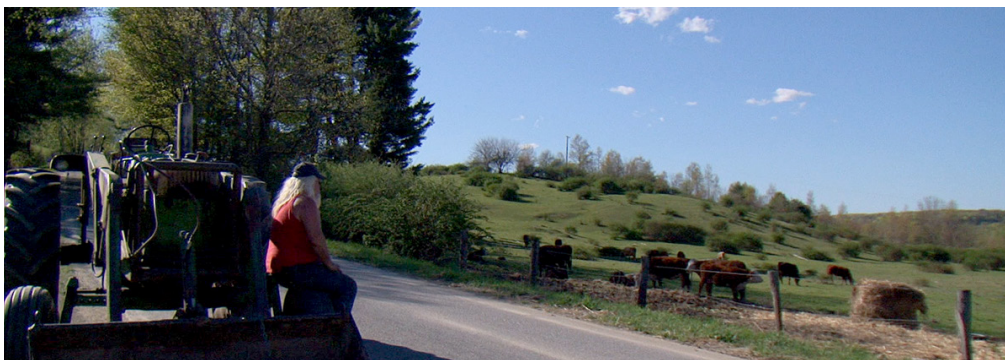
Coops have traditionally been an active and viable part of the ag landscape in the Northeast. Especially in our corner of New York State, there are a number of milk cooperatives serving dairy farmers or purchasing coops helping small farms buy supplies more economically.

The concept of a marketing coop would allow the farmer to concentrate on what they do the best – produce. It might also eliminate the challenge some of the producers discovered when they tried to explore retail selling at farmers markets and discovered there are not enough slots to accommodate a fraction of the farms that might be interested.

Some of the characteristics of cooperatives is it is generally user-owned, user-controlled and user-benefitted. The farmers participating in the cooperative will be focused on the necessary business decisions. One member, one vote is the system for decisions that was chosen.

Other examples exist also – Farm to Chef was a corporation founded to distribute and market ag products from Washington County to New York City (apples to milk to zucchini). It operated for several years though with some challenges we will discuss later and eventually the corporation was sold to a private company who purchases items from farmers and then transports to the market.

There are some other loosely organized distribution systems where farmers pay for transportation and have made their arrangements with the final buyer, handling the invoices and payments themselves.



## Questions to run through

### Do you have a group that might want to explore the concept?

This type of endeavor requires that you have a group of producers who are interested. They need to be trying to achieve the same basic concept – a better price on the product.

If they are wishy-washy on the end goal, it will be very difficult to get a core group formed that will be able to work toward the end goal.

The exploratory group does not need to be extremely homogenous though they do need to be focused around a single product like beef rather than all grazing livestock (too diverse – tough to market easily). This group may be a steering committee that will be the precursor to the first board of directors.

Several farmers had been working with cooperative extension on financial projections for starting or expanding pastured beef businesses. When the numbers were not presenting a profitable picture, there was a great deal of discussion about how to improve the picture.

Price is the best and fastest adjustment. But most of our local farms are not appropriately sized to handle accounts that want regular deliveries (weekly/bi-weekly/monthly).

As a quick rule of thumb, it takes 4 animals in the pipeline (mama cows, calves, feeders, finishers, replacements). This means to have one beef to sell each week (52/year), there are more than 200 animals providing support, a tough proposition in a smaller scale part-time farmer/landowner world.

Through cooperative extension educators, a meeting was promoted to beef producers and held to discuss the needs and marketing options for farmers in Washington County and the surrounding area.

During introductions of the more than fifty people in the room, there was a common theme. Many of the farmers present had been seriously raising beef for five to ten years. They were interested in expanding their operations but they had maxed their current markets, either freezer beef (whole or in cuts) or farmers markets.

Extension led a discussion identifying many of the needs the producers had. The idea of a marketing cooperative was also presented. The group agreed to meet again in a month after performing some research into a number of the issues discussed.

At the second meeting, a number of attendees discussed the issues and agreed that banding together somehow to appear as a larger business made business sense. One attendee stated they were applying for a SARE Farmer grant to explore the distribution challenge concept.

### How to find leadership?

It is crucial for the group to have several people who are committed to the project concept and willing to pursue all avenues and keep the team on track. Leaders have to be capable of watching the big picture, delegating assignments and encouraging people to execute them, all while selling the vision.

It is important for the core team to elect or designate someone with these skills and not just a bully with a loud voice. The success of the process will hinge on the ability of the core group to work together.

## Questions to run through (Cont'd)

Additionally, the group may need to identify and recruit people who can be advisors for the group. It may be cooperative extension educators or other farmers or business people who can provide some experience and insight into the potential business.

### Review the Market

One of the key issues facing any group looking to form a new endeavor is:

#### **“What is the marketplace?”**

Taking the time to review current patterns of use and spending in that market, tracking prices received by other players and knowing the depth the market available.

- How many restaurants are looking for local meat?
- Are there people or markets other than restaurants that want to purchase local meat?
- How many farms are available to supply it?
- Can the farms provide a stable/quality/uniform product?
- What are the products that the market desires? Whole or halves or quarters of fresh meat or frozen individual cuts

### Run Projections

#### **“can the group provide the product at the prices which the clients are willing to pay?”**

- Are there enough animals available to sell into the marketplace?
- Based on potential prices received, how many animals does the business need to sell to reach breakeven point?

### Identify the snags in the system

#### **“can they be overcome?”**

Distribution / Transportation

- how do you move meat (refrigerated or frozen) and maintain USDA certification?
- How to deliver to customers?
- What time of day are they present for deliveries?
- How to take orders from customers and track inventory?

### Adding or subtracting farms to the system

- What is the system the group is going to choose?
- How can a new farm be added to system?
- How will a farm be subtracted?
- What will be the reasons for asking farms to leave?

## Business Entity - Choose Cooperative

### Legal Considerations

An attorney **MUST** be part of the discussion to be very clear with potential members about what the process is, what pitfalls may be involved and provide insight into how this entity might operate in the future.

Adirondack Grazers obtained some funding from SARE because one of the farms involved applied for a farmer grant that could be used for the feasibility piece of project and paying for some of the legal advice. This allowed some of the meetings to involve the attorney.

### Bylaws

The attorney will help the group craft these but they are extremely important as a structure designed to tell the group how to conduct business. This is the document that lays out how to carry out the actions necessary for operating the business.

Membership requirements need to be defined as well as providing information about the rights and responsibilities of the members. Members may have to abide by protocols and rules which describe activities they must do and things they cannot do.

Board of director information is also included to lay out how board members will be chosen, duties, terms of office, how officers will be elected or removed, date of required meetings and date of fiscal year.

The bylaws will also define how members can obtain equity, how to redeem equity, how the group will handle profits and losses, the dissolution of the entity and the process for amending the bylaws.

Adirondack Grazers defined a geographic area for marketing. The designated area the group is concentrating on is Greater New York City area which includes southern CT, New Jersey and NYC. The bylaws state any farm currently selling in that area must transition the customer over to Adirondack Grazers by the end of five years after a member joins.

### Election of Officers

The leadership group or steering committee is the primary place where the new officers will come from for the cooperative. Once the business has been in operation for a period of time, others will be able to be elected to lead the cooperative.

There are resources that can be accessed through USDA's Rural Development and Cooperative Extension as well as Cooperative Development Institute in Deerfield, MA.

Adirondack Grazers set their first board up with staggered terms – 2 members with a one year term, 2 members with two years and one with a three year term. This guaranteed having a board where the positions won't all enter or exit at the same time.

## Articles of Incorporation

For most businesses, this is defined by the state regulations and relate to the type of entity organizing. The articles give legal standing to the business and require work by the consulting attorney.

Articles are filed with the Secretary of State (in NYS) and describe the broad operation of the business, the principal place of business, the names of the incorporators, the proposed duration of the business and the capital structure.

Adirondack Grazers chose to utilize a Steering Committee and explore the feasibility of operating a marketing business before beginning the process of incorporating as a cooperative. The attorney that was chosen attended a number of meetings explaining the process and answering numerous questions from the participating audience members.

## Stock

The purchase of equity by a member provided a voting right to decisions made at the annual meeting, the opportunity to be elected to the board of directors and the ability to receive patronage dividends from the operation of the cooperative.

The purchase of stock at \$1,000/member share was also a way to provide additional financing for the business. Adirondack Grazers made the decision to only allow for stock purchases from members who are farmers who own beef cattle. This reduced the potential for a conflict of interest from stock owners who may represent other related interests, such as transportation, a restaurant owner or slaughter house.

## Financing

As with most small businesses, available capital to provide for the day-to-day operations of the business is a challenge.

## Assessments

A cooperative can raise money through the stock purchases as well as assessments of a fee on material marketed through the cooperative, often referred to as a per-unit retains.

Adirondack Grazers designated a \$.15/pound assessment which was reduced to \$.10/pound. The goal of the assessment was to generate working capital to pay for operating expenses (staff, rent, postage, phone, utilities).

## Benefits

The member users were designated to be in a position to receive member dividends based on their rate of usage of the cooperative once the capital account of the cooperative was sufficiently funded.

## Marketing Activities

Many groups look to cooperatives as a way to help them improve their bargaining power, reduce costs or increase income or availability of supplies. The process of identifying and standardizing the requirements and goals provides added value to the members and their customers.

As the primary driver of the formation of Adirondack Grazers, access to markets for smaller producers was the focus of the board. But achieving that goal also brought other opportunities in reduced slaughter expenses and booking slaughter slots, transportation to markets and education of members.

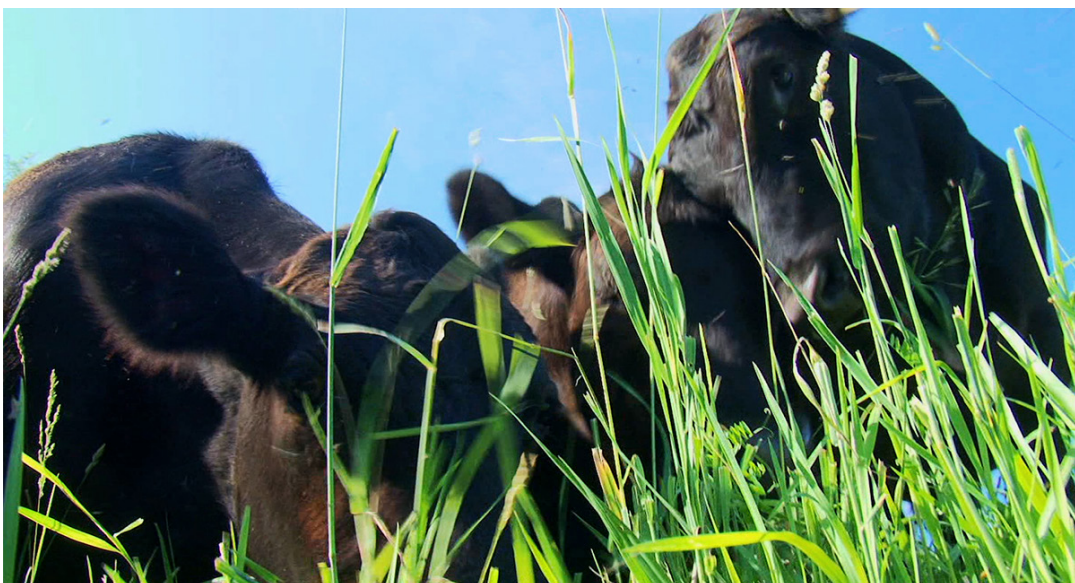
## Staff

With most new businesses, it is vital to have people carrying out key functions like bookkeeping, managing inventory, sales, marketing and communications. But the reality is these positions are usually filled in the beginning by unpaid members, interns or friends of the cooperative. It is difficult to grow a business with no income by paying out salaries even if the business has borrowed a line of credit.

Adirondack Grazers used all of the above – friends, unpaid members, paid staff and lots of goodwill to meet with people, create promotional material and get the business moving. Numerous people contributed hundreds or even thousands of hours to create and nurture the business.

The lesson that is important is to give credit, to try and pay when possible and to employ the skills that everyone has best.

When the business moves to the point of hiring staff, the board needs to have a clear understanding of the daily tasks as well as the future issues that will grow larger. The board needs to understand what the employee does but the employee also needs to understand what the cooperative does, who and how the members are trying to achieve something.



## Pitfalls and Challenges

There are numerous problems that have been discussed as part of this document. Lack of capital, failure to have a clear mission and goal, the inability to share the vision with potential members are just some.

Collect and utilize advisors is one of the most important roles some of the key leaders can pursue. Inviting many different people to be part of the discussion right from the start will help to bring ideas and perspective to the table. While they may not have worked with exactly the same business before, they often have some experience in group facilitation or starting other large projects.

## Final Thoughts

The effort to discuss and create a new cooperative to solve a problem or issue is substantial. It takes a dedicated group of volunteers who are prepared to work through the steps examining the different options and scenarios. There needs to be some clear leadership as well as supporters to move the project forward.

Adirondack Grazers drew together a group of like-minded beef farmers who were willing to work to explore the potential of the market, the business and opportunities. It was not easy or fast. And definitely not a silver bullet to the marketing challenge confronting all of the growers. However, it did demonstrate the power a group can generate in the market.

## Resources

<http://www.rurdev.usda.gov/rbs/pub/cir7/cir7rpt.htm>

[http://www.uwcc.wisc.edu/info/i\\_pages/startc.html](http://www.uwcc.wisc.edu/info/i_pages/startc.html)

[http://cccd.coop/info/starting\\_operating\\_a\\_coop](http://cccd.coop/info/starting_operating_a_coop)

