NEW GENERATION CO-OPS IN THE AGRICULTURE SECTOR

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New generation co-op in the agriculture sector

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- THE ADVANTAGES / DISADVANTAGES OF NGCs AS A BUSINESS STRUCTURE FOR VALUE-ADDED AGRIBUSINESS
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NGCs in the agricultural sector

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WHAT IS A COOPERATIVE?

- Traditional Cooperatives
  - A type of corporation with separate legal entity from its members
  - Members enjoy “limited liability”
  - Exists for the benefit of its members
  - Each member has one vote regardless of the size of the member’s investment
  - As a general rule membership open to anyone who makes use of the co-op services
  - Surplus funds are distributed to members by way of patronage dividends (for profit co-op)
  - Services are primarily provided for members

WHAT IS A COOPERATIVE?

- NGCs:
  - Retain some key co-op principles.
  - Although the one member, one vote principle is retained, the *Cooperatives Act* affords NGCs the ability to give investors voting rights and some control over the activities of the co-op.
  - NGCs also permit distribution of excess earnings to members as patronage returns (all NGCs are for-profit).

WHAT IS A COOPERATIVE?

- **Restricted or Closed Membership**:

  "Restricted" membership option is closely connected with the need for high equity investment among members in NGCs and a business organization which is focused on viability and profitability for its members in a competitive agricultural economy.

  Closed membership serves to foster a higher degree of member commitment.

WHAT IS A COOPERATIVE?

- **Greater Capital Investment:**

NGCs generally require a substantial capital investment from their members at the outset.

Literature indicates that « a minimum capital contribution in the range of **35%** to **50%** by the organizing members is required ».

Amount of contribution by way of investor equity is dependent on the overall cost of the project to be undertaken by the co-op, as well as the degree to which the project will be financed by debt.

WHAT IS A COOPERATIVE?

- **Delivery Rights:**

  Delivery rights are a primary feature of NGCs.

  Members generally receive the right to deliver product to, or acquire services from, the co-op, often in proportion to the number of shares held or the units of investment contributed.

  A delivery rights contract may be entered into between the member and the co-op which may provide for:

  (a) the quantity, quality and delivery of the product to the co-op;

  (b) the price to be paid to the producer for the product:

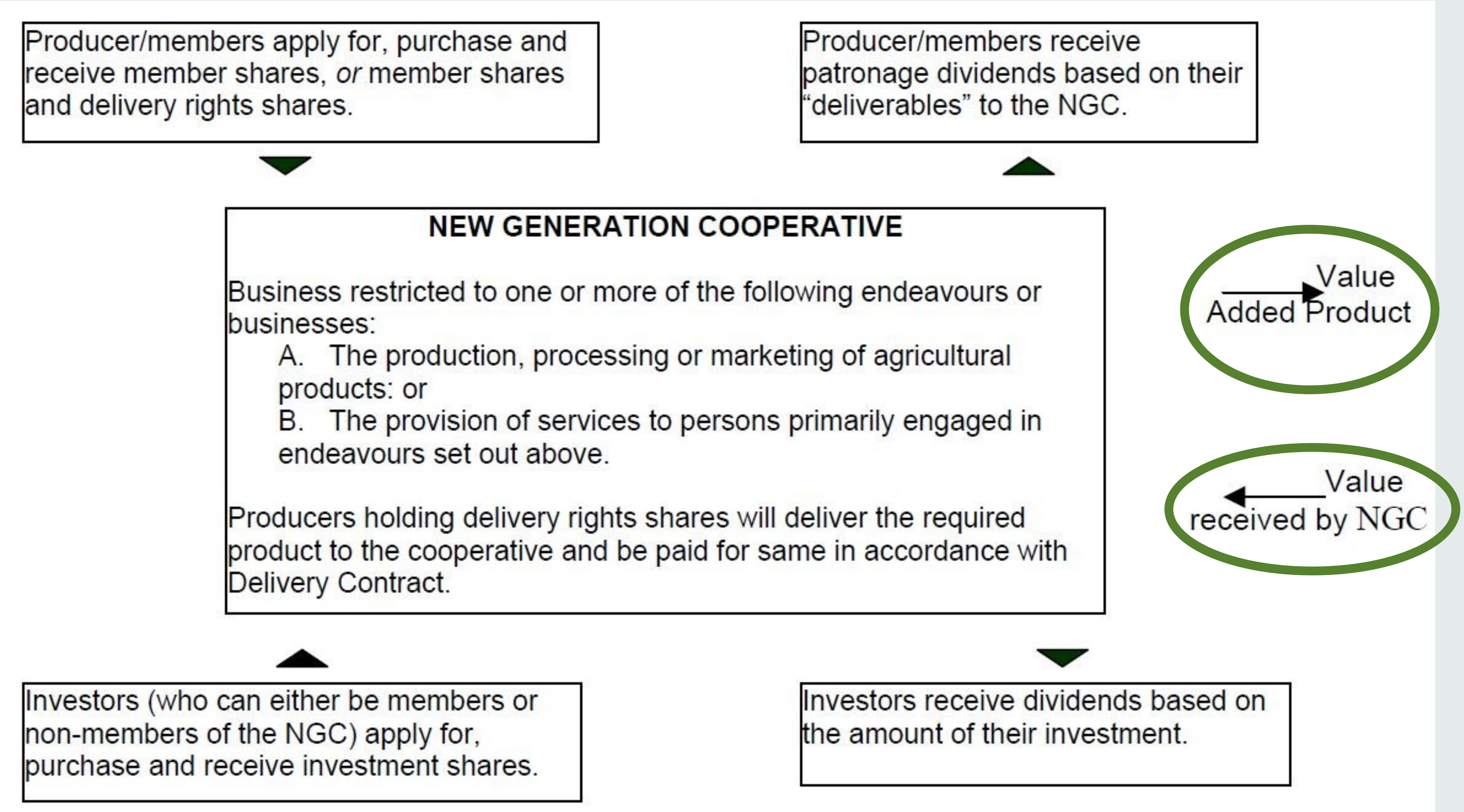
  (c) and remedies in the event of non-performance by either the producer/member or the co-op.

WHAT IS A COOPERATIVE?

- **Delivery Rights :**

  If membership is restricted and the co-op is successful, these delivery/service rights may increase in value (like quota), as well as being a valuable adjunct to the member's agricultural operation.

HOW DOES A NGC WORK?



THE ADVANTAGES / DISADVANTAGES OF NGCS AS A BUSINESS STRUCTURE FOR VALUE-ADDED AGRIBUSINESS

- The "cooperative" approach may be attractive in the following contexts:
- **Capital**: when participants need substantial amounts of capital for their investment and have the opportunity to raise capital from producers who may use the products and services of the co-op;
- **Value-added returns**: when they wish to own and control the marketing and processing of their products to increase profits and their markets;
- **Control**: when they wish to have decision-making controlled by the member producers (based on "one member, one vote") rather than by investors (based on the amount of the investment);

THE ADVANTAGES / DISADVANTAGES OF NGCS AS A BUSINESS STRUCTURE FOR VALUE-ADDED AGRIBUSINESS

- **Diversification/innovation**: when they are seeking new opportunities for innovation and diversification, in particular where there is a lack or inadequacy with respect to established businesses involved in providing the goods or services required;

- **Rural development**: when participants are interested in seeking community support and fostering local economic growth.

The main drawback of the NGC model is the issue of **control** and whether control should be lodged in the members or investors. The issue may be influenced by the need for capital and which model is best suited to raise the capital required.

SHARE CAPITAL AND FINANCE / MEMBER AND INVESTOR CONTROL

- **Introduction**

NGCs have the ability to issue the following types of shares:

1. **Membership shares** with or without a par value

2. ‘**Designated Shares’** (Delivery Rights) without par value (for members only)

3. **Investment shares** without par value. These shares can be issued to both members and non-members of the cooperative.

SHARE CAPITAL AND FINANCE / MEMBER AND INVESTOR CONTROL

1. Membership Shares

A member of a co-op is someone who can use the services of the co-op and who is willing and able to accept the responsibilities of membership.

NGCs are, by definition, restricted to production, processing, or marketing of agricultural products or the provision of services to persons engaged in this activity. The members = individuals who can use the type of agricultural services provided by the co-op.

Membership shares may be issued with or without a par value. **Members have an equal right to receive dividends on their shares**.

SHARE CAPITAL AND FINANCE / MEMBER AND INVESTOR CONTROL

2. "Designated" Shares

NGCs can issue a type of investment share called a "designated", to be issued only to members and carry no right to vote. The articles may be drafted to give designated shareholders the right to participate:

- in the surplus of the co-op by the payment of patronage dividends or bonus payments (i.e., based on the amount of business they do with the co-op); and
- in any reserve of the co-op by payment of dividends

SHARE CAPITAL AND FINANCE / MEMBER AND INVESTOR CONTROL

3. Investment Shares

- to members or non-members and in different classes and series
- including special preferences, restrictions and limitations, which may vary from class to class and which must be specified
- with a right to vote a fixed number or percentage of directors which must not exceed 20% of the total number of directors
- for cumulative dividends, pre-emptive rights or cumulative voting

HOW TO SET UP A NGC

- **Getting Started**
  - The initial step is identifying a **business opportunity**
  - Work with an external resource to guide discussions and gain consensus
  - Set up a work team ready to volunteer during the pre-start phase

HOW TO SET UP A NGC

- **Seed Money**

To carry out a **FEASIBILITY STUDY** that will evaluate :

- Market opportunities
- Competition
- Required investments
- Production costs
- Required staff
- Quantities of raw materials required
- Number of members required to supply the raw materials
- Profitability

HOW TO SET UP A NGC

- **Incorporation**
  - The incorporation of the co-op must be done according to the laws in force which vary from one country to another, and even from one state or province to another.

HOW TO SET UP A NGC

- **Business Plan**
  - Should be done by a professional
  - Must convince investor(s)
  - Will be kept as a guide to follow throughout the establishment of the cooperative
  - Must be revised every year

HOW TO SET UP A NGC

- **Capitalization Issues**
  - Objective to raise **50%** of the initial share capital
  - Shares sold as a condition of membership (with voting rights)
  - Shares linked with delivery rights
  - Preferred shares with predefined return on investment rate
  - Loans from members
  - Loans from financial institutions

HOW TO SET UP A NGC

- **Capitalization Issues**

  Example:

  - Class A share $ 100 to be purchased by all members (maximum 500 shares)
  - Class B Preferred Share at $ 1,000 (maximum 1,000 shares)
  - Non-Voting Class C Preferred Share at $ 1,000 (Yield 5% per year)

HOW TO SET UP A NGC

- **Post Incorporation**

Directors listed in the incorporation documents serve as directors until the first meeting of members and are required to hold an organizational meeting.

At that meeting the directors may:

- adopt the forms of security certificates and of co-op records
- admit persons to membership in the co-op and issue or authorize the issuance of membership shares and arrange for member loans
- appoint an auditor to hold office until the close of the first meeting of members and officers
- make financial arrangements for the co-op
- transact any other business necessary

FACTORS THAT DETERMINE THE SUCCESS OF A NGC

- Local leadership
- Realistic goals, objectives and hypothesis
- Good communication between members
- Targeted market
- Experienced consultants
- Realistic business plan
- Competent managers
- Sufficient membership contribution (ideally 50%, minimum 30%)

FACTORS THAT DETERMINE THE FAILURE OF A NGC

- Mission poorly defined
- Bad planning
- Not using external resources
- Lack of leadership and involvement of members
- Mismanagement
- Overly optimistic business plan
- Inadequate start-up financing
- Bad communication between members

EXAMPLE

- North American Bison Cooperative (NABC)
  - Funded in 1993 by bison breeders
  - Bison meat processing
  - Factory accredited by the USDA and European Union
  - Capacity of 5,000 animals per year

EXAMPLE

- NABC
  - Expansion in 1997
  - Capacity of 10,000 animals per year
  - 200 members in **ten US states** and **two Canadian provinces**
  - Bison are bred and slaughtered according to humane treatment of animals.

EXAMPLE

- NABC
  - Investment of $CAN 1.6 million
  - Membership share: 100 dollars
  - Delivery share of 420 dollars (minimum 10 shares)
  - Each delivery share gives the right to sell one animal to the co-op

EXAMPLE

- NABC
  - Factory employs 40 people
  - Between 20% and 25% of production exported to Europe
  - In 1997,
    - they controlled **55%** of the worldwide market, now = more then **65%** and
    - average price of bison meat was = **$2.35 lb**, today = **$10 lb** (wholesale price)

http://tenderbison.com/

EXAMPLE
Suggestion: Food Hub

- Operation

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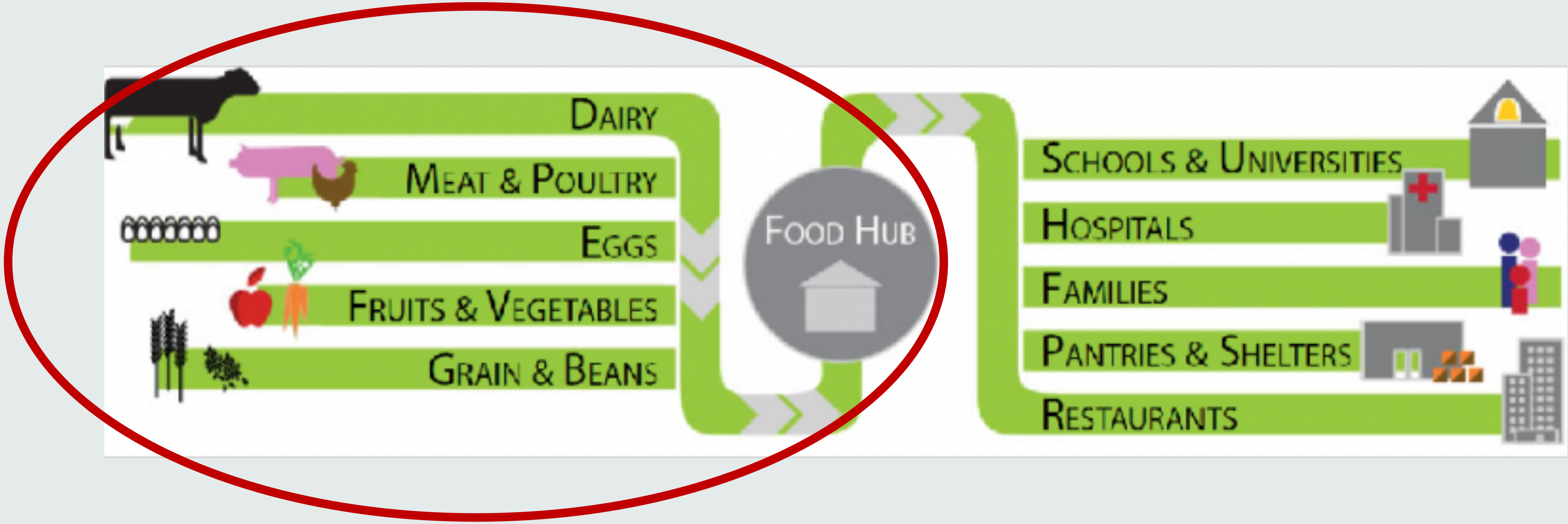
- NGC



EXAMPLE

http://www.wapitiriver.com/

http://www.learningcentre.coop/resource/koocanusa-value-added-cooperative

Other suggestions ???

Questions ???

Thank you !