New Generation Co-operatives

Description

Agriculture, forestry, fishing - industrial sectors based on natural resources - have been significantly affected in recent years by changes in the way commodities are produced, processed, and marketed. In their struggle to survive, commodity producers are looking to different organizational models to secure more control of their costs and market share. For CEDOs based in natural resource-dependent communities, the new generation co-operative (NGC) is one model to which they may look to encourage value-added activities that will benefit the community.

Value-added is the key term here. The NGC strives for vertical integration of commodity producers into the chain of processes to the ultimate consumer, so that the original producers can capture a larger piece of the profits generated in that chain. For purposes of this entry, the agricultural sector will serve as the case. Thus, for example, the NGC might take the peas produced by its members and process them in a canning factory and market the canned goods to distributors or to retail outlets.

The scale of the NGC can be large or small depending on the industry and the number of members and investors involved. It retains the collective ethic of the old co-operative structure, in that the producers pool resources to meet a common need more efficiently than they could on their own, and each member has only one vote, no matter how much capital the member may have invested. But the structure adds an entrepreneurial (if non-egalitarian) edge to secure the equity and volume required to make the enterprise viable.

The traditional producer co-operative is a voluntary organization open to all persons able to use the services. The NGC membership is restricted to those who can supply the designated product at a specified quality level; however, non-members may also buy shares, participating as part-owners but not as producer-members. The board of directors of the traditional co-op is elected by the membership. In the NGC non-member shareholders can also elect some of the board.

The traditional producer co-op is limited to joint marketing and joint purchasing, but the NGC producers will also add value to their product collectively. Other aspects of the NGC are:

- Restricted membership provides stability for producers and the processing plant.
- Quality of product is the focus for producers and co-operative.
- A large consistent pool of quality product makes it easier for the co-operative to develop markets.

Capital is a particularly distinguishing feature. In a traditional co-op the members buy shares or pay membership fees or offer member loans for the initial capital. Surplus revenues for services/products are the sole other source of capital, unless the co-op borrows from outsiders or enters a joint venture. In addition to such forms, in the NGC, capital may also be raised by the sale of various other types of shares to non-members and members alike. The NGC may issue common or preferred shares, as well as a special class of preferred share for members only, called "member right shares." This share obligates the producer to provide and receive a good or service from the co-operative. While in most traditional co-ops, shares cannot increase in value, in the NGC it is not uncommon for equity holders to enjoy capital gains.

The initial price of the shares can be based on the amount of capital needed divided by the number of units of product that can be processed in the facility. NGCs require a higher equity investment by members than traditional co-operatives. Typically, NGCs have raised 30-50% of their capital through a share offering to members and non-members.

NGCs attempt to build a strong commitment from their producers to deliver consistent and quality product. To accomplish this, NGCs feature a unique delivery contract between producer and co-operative.

Essentially, NGC members make an equity investment in terms of "delivery rights." Producers purchase member right preferred shares in order to obtain the right to deliver a specific quantity of product to the co-operative. For its part, the co-operative agrees to purchase a predetermined amount of product from each of the members based on the number of member right shares the producer purchases. However, the producer contract will also include provisions that govern conditions when the producer is unable to deliver, as well as when market fluctuations require that the processing plant reduce operations. The co-operative is not obligated to accept poor quality product or more product than the producer has delivery rights to. Producers who do not deliver product as specified in their contract may not receive a dividend.

To make this work, obviously the co-operative must have a firm idea of the number of units of product needed to be financially viable, and sell the requisite number of shares. Additional product that the membership cannot supply, the co-operative may purchase from non-members.

Benefits

When the producers are pretty much able to get guaranteed purchase of their commodity and, in addition, participate in the rewards of the second (and possibly succeeding) stages of the food chain process, the benefits to them are obvious. For the community, the NGC captures an income stream (and new jobs) that otherwise would escape it. In addition, because residents are involved in the NGC and its facilities, the community's economic activity is more likely to be stable.

Major challenges

As with all co-ops the success or failure will depend heavily on the capacity of the members to work together, to develop honest and open communication, and to find among themselves the leadership to see the project through to its fruition and to continue to confront the co-op's inevitable problems creatively. Also, the innovative structure does not do anything to mitigate the demands of the marketplace and of the basic requirements of feasibility and business planning.

Some practical steps

1. Provinces have different legal and financial structures that specify, e.g., how equity can be raised, so a thorough understanding of relevant provincial and national legislation is needed. While legal and business consultants abound, it is critical to begin with some one who is fully familiar with the concepts and experience of co-ops.
2. While the potential members may have a general idea of how they hope to add value to their commodity, they must spend the time to specify clearly their goals and the steps they must take to reach them.
3. Because the number of potential members may be larger than can practically guide the process of organization, an executive or co-ordinating committee will probably have to be established, and a budget designed to handle the expenses of organizing.
4. The usual procedures of feasibility studies and business planning must be undertaken. Special attention will be paid to the issue of initial capital and the sale of shares.
5. Whatever funds the members may raise through member and non-member shares, financial institutions will probably also have to be found for supporting credit and/or equity.

Resource organizations & contacts

There are at least three organizations that have focussed on NGCs and their particular issues:

- The University of Wisconsin Center for Co-operatives. Website: www.wisc.edu/uwcc
- The Canada Saskatchewan Business Service Centre. Website: www.cbsc.org/sask
- The Centre for the Study of Co-operatives at the University of Saskatchewan. Website: coop-studies.usask.ca

Publications

Among those available at the resource organizations and elsewhere:

- *Case Study: "New Generation Co-operatives for Value-Added Projects." With reference to a number of western Canadian experiences, this article explains how NGCs can infuse commodity processing with equity, innovation, and member commitment.
- Robert Crop, "New Generation Co-operatives Defined" (Univ. of Wisc. Center for Co-operatives, Madison, WI, 1996).
- W. Patrie, *Creating "Co-op Fever": A Rural Developer's Guide to Forming Co-operatives* (U.S. Dept. of Agriculture, Rural Business-Co-operative Center, Service Report 54, July 1998).
- Brenda Stephanson et al., *New Generation Co-operatives: Rebuilding Rural Economies* (Centre for the Study of Co-operatives, Univ. of Sask., Saskatoon, SK, 1995).
- Cindy Thyfault, "Developing New Generation Co-operatives," *Rural Co-operatives* (1996) 63, 4.