The Key Question

• Are the cooperative conversions, failures and restructurings that occurred at the beginning of the 21st century isolated events or are they part of an on-going trend?

• This presentation summarizes the results of 13 case studies of U.S. and Canadian agricultural co-ops. See www.kis.usask.ca for copy of the case studies.
# Case Study Groups

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Key Areas of Findings

- Poor management and oversight
- Cooperative benefits and objectives
- Organizational structure
- Capital
- Property rights and portfolio problems
- Cooperative and industry dynamics
- Structure of agriculture
Poor Management and Oversight

• Symptomatic of co-ops with poor performance (TVG, RGA, Lilydale, SWP)

• Rather than re-focus on core values in response to weaker performance, these co-ops undertook bold new strategies that were sold as significant new investment opportunities.

• Often associated with weak board oversight

• Evidence of overconfidence and hubris
Co-op Benefits and Objectives

• What is the value to members of their co-op? What value is created with a conversion?

• In some cases (e.g., DWG), conversion resulted in some members facing an monopoly processor

• In other cases, the market was clearly competitive (e.g., FCStone)

• While attempts can be made to negotiate future market structure (e.g., Pro-Fac), no guarantee that the outcome will hold
Organizational Structure

• The cases provide insights into some of the key problems to be addressed in organizations
• Free rider issues (UPI)
• Managerial opportunism (NABC)
• Inability of members to provide capital (ANBC)
• Finding solutions to these problems affects the organizational structure chosen
Capital

- Ability to raise capital was an issue in all cases
- For TVG, RGA, and Lilydale – shortage of capital, combined with a willingness to leverage, was responsible for financial trouble
- Pro-Fac and DWG also faced capital constraints, but undertook retrenchment and conversion
- Suggests co-ops are unable to access sufficient capital from their members to effectively compete in all parts of the market
Property Rights & Portfolio Problems

- Horizon problem, free rider problem and cross-subsidization all present in the cases
- Horizon problem – Present in DWG and SWP
- Free rider problem – Present in DWG and UPI
- Cross-subsidization – Present in TVG
- Portfolio problem – Important in the TVG, DGPC, West Liberty and ANBC cases
Cooperative & Industry Dynamics

• Co-ops appear to convert for two key reasons
• First, they are no longer playing a special role relative to an IOF – e.g., conversion at Lilydale and DGPC, and perhaps the takeover of AU
• Second, with a good management team, and some luck, it is possible to generate significant firm value – value that members wish to “unlock” – e.g., DWG, DGPC and FCStone
Structure of Agriculture

• Hypotheses is that the capital requirements of industrialized agriculture have increased to such a degree that it is difficult for co-ops to operate beyond the farm gate

• West Liberty – Formation of a co-op was associated with a significant shift in the structure of the contract between the grower and the processing facility
Areas for Future Research

• Understanding manager motivation – What is the role of hubris and overconfidence? What role does internal lobbying play?

• Fraud and financial misreporting – Issue in RGA, TVG, and UPI cases.

• What is patron value? (As opposed to shareholder or investor value.) How can it be measured?
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