

# A Follow-Up . . . to the Cooperative Study Tour

Allow me to express appreciation to the Tennessee Farm Bureau Federation and the Tennessee Department of Agriculture for their sponsorship and leadership with the Cooperative Study Tour on August 17 - 19. It was a whirlwind of a trip with four vehicles transporting 19 agriculture leaders from Tennessee on a three-day, 1,265 mile round trip.

The journey consisted of on-site tours to *Gateway Beef* in Granite City, Illinois, *Northeast Missouri Grain* in Macon, Missouri, *Heartland Beef* in Montgomery City, Missouri and the *Purchase Area Aquaculture Cooperative* near Mayfield, Kentucky. We also heard from Mark Price of *A Taste of the Kingdom*, a value-added hot pepper processing business, Deanne Hackman and Tony Stafford of the Missouri Department of Agriculture, Dale Ludwig of the Missouri Soybean Association, Jerry Budlitz of *Alma Meats* and Scott Shively and Phil Saunders with *Premium Ag Products*.

I think everyone would agree that the trip was very educational, informative and helpful. Some of the things we heard and saw were very unique to one particular enterprise. However, several folks noted throughout the trip that we began to hear some of the same things more than once. A few of the common themes and suggestions that continued to surface include:

- Planning and developing these businesses take a significant amount of time.
- You must have access to much more capital than you ever think you'll need.
- State and federal financial resources were helpful in the planning and development of these cooperatives.

The rest of this report is devoted to various quotes, observations and suggestions that were noted during the tour.

Rob Holland

*Center for Profitable Agriculture*

## -- NOTED QUOTES, OBSERVATIONS AND SUGGESTIONS FROM THE TOUR --

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>✓ You should have a market identified and locked-in for at least 50% of your product before you ever start operating.</li> <li>✓ In order to take advantage of the Missouri tax credits, the total start-up could not exceed \$1 million.</li> <li>✓ You must have a niche!</li> <li>✓ The "niches" for Gateway Beef were identified as: 1) Kosher, 2) hormone free, 3) 50% of all meat grades prime.</li> <li>✓ To make something like this work, someone has to work their tail off.</li> </ul> | <ul style="list-style-type: none"> <li>✓ You absolutely must have someone that knows what they are doing.</li> <li>✓ I think it is best for every project to have a private consultant do a feasibility study early in the planning phase.</li> <li>✓ We applied for a grant that required matching funds. We probably could not have done this without the state grants.</li> <li>✓ We got a USDA value-added producer grant too.</li> <li>✓ Timing is critical, location is key.</li> </ul> |
|--|---|

- ✓ These types of enterprises take time to develop . . . I'm talking years, not months.
- ✓ We've actually met much more of a marketing challenge than our business plan projected.
- ✓ Nine out of ten ideas will not work. You have to invest in planning, a feasibility study and a marketing study . . . then you have to write a business plan.
- ✓ In Missouri, you cannot use part of the membership investment funds for operating expenses during the planning phase – Securities laws prohibit it.
- ✓ You may not be able to be in a business with the same guys that you like to go hunting or camping with.
- ✓ We keep very detailed records.
- ✓ You can't get over capitalized on the front end – it will take much more capital than you think.
- ✓ Make sure you have enough capital, you'll need it.
- ✓ It takes time and dedication – a lot of time.
- ✓ Our biggest problem now is that the tobacco settlement incentive money is running out.
- ✓ When our state legislature provided cost share money the interest from our farmers went up 600%.
- ✓ These things take a lot of hard work from a lot of people.
- ✓ There absolutely must be a “champion” – a “spark plug” – that is committed to making things happen, keeping people focused and keeping things moving.
- ✓ To be successful, projects need more than grant money. You certainly need money to get things going but grant money is not everything.
- ✓ One thing that is often overlooked is proper skills training for farmers that are in transition into a value-added enterprise. Groups need skills training too.
- ✓ We may have developed the product a bit ahead of our market development – we should have done a bit more market research first.
- ✓ If we had more input from the board of directors from the very beginning, we would be much better off today.
- ✓ Many folks with a significant amount of disposable income are discovering that beef is good again – these are our customers.
- ✓ This coop started five years before the first gallon of ethanol was produced.
- ✓ We are not talking about a \$10 million project – this is more than a \$50 million business.
- ✓ Most businesses that fail do so in the first three years – due in large part to cash flow problems.
- ✓ To our surprise, we turned profit in the first year – it was an unusual year with high fuel prices (our end product) and low corn prices (our inputs).
- ✓ Working together is absolutely critical.
- ✓ You must have a network of information providers working directly with the entrepreneurs.
- ✓ We've lived it, there is no replacement for carefully going through the proper business planning steps – feasibility study, market study, business plan and then a business prospectus.
- ✓ The three “M's” are crucial: Management, Marketing and Money!
- ✓ You simply cannot compete with the big and established firms . . . you MUST have a niche.

- ✓ Have a specialized product. Don't go head-to-head with the "big boys"—they don't want you there competing with them. Find a niche in which you can succeed.
- ✓ The Missouri Legislature allocates \$6 million in tax credits each year – part of this goes to the new generation coop incentive program and anything left over after that funds the value-added grant program.
- ✓ If during the planning process, someone says "let's stop talking and do something"—this is a bad sign.
- ✓ Strong farmer leadership and promotion are essential.
- ✓ We established a new generation cooperative in Missouri so we could get the state tax credits – then the coop started a LLC so we could raise outside capital from non-farmer members.
- ✓ If you set a timeline for a new project that you've never done before . . . you'll never meet it. These things take time.
- ✓ We are lucky that we have so many people working in our state in support of value-added activities. The best thing is that no one cares who gets the credit.
- ✓ The state of Missouri has 7 funding programs: Beginning Farmer Loan Program, Animal Waste Treatment Loan Program, Single-Purpose Animal Facilities Guarantee Program, Value-Added Grant Program, Value-Added Loan Guarantee Program, New-Generation Cooperative Incentive Tax Credit Program, Agricultural Products Utilization Contributor Tax Credit Program.
- ✓ You must remove the emotions . . . this is a business.
- ✓ Membership in our coop is a "security sale." We encountered rules and regulations dealing with "securities" that we never even imagined.
- ✓ For an ethanol plant, today the suggested minimum production capacity for a plant is 40 to 50 million gallons .
- ✓ The members of our coop provide about 27 percent of the corn we use – the rest is purchased on the spot market.
- ✓ We are now providing a premium for non-GMO, IP corn because we actually have a market with a feedlot for non-GMO, IP distillers grain to be fed to their non-GMO cattle.
- ✓ 73 percent of our operating costs are for corn, 20 percent for natural gas, electricity is third and labor is way down on the list.
- ✓ No longer do we worry about the supply of ethanol exceeding the demand.
- ✓ Operating efficiency in an ethanol plant is influenced by many things: equipment, technology, labor, use of various enzymes, use of heat and such.
- ✓ Be sure you have a market for your product before you start production.
- ✓ Borrow more money than you think you will need because you will need it.
- ✓ State income tax "credits" can be used to offset individual income tax or various business taxes in the state.
- ✓ Tax credits can be used directly or sold to another party that can use them.
- ✓ To help evaluate proposals for their funding programs, the Missouri Department of Ag has a non-partisan board that reviews applications and allocates the money.
- ✓ In order to get the state coop incentive funds, new coop board members are required to go through skills training – this helps deal with the challenges of organizing and operating a coop.

- ✓ Feasibility studies can be funded through Missouri state grants. This helps farmers determine if they want to proceed with a project.
- ✓ If a feasibility study is positive, then the state can issue a grant for a business plan. Also can fund operational consulting.
- ✓ Good management, sufficient capital and effective marketing are absolutely necessary – you must be able to survive the inevitable mistakes that will occur.
- ✓ Project “champions” are absolutely needed for a project – good leaders are also needed but “champions” are critical!
- ✓ State and federal tax incentives at the processing level are critical to success of biodiesel and ethanol.
- ✓ Leaders of the cooperative venture must educate lenders, legislators, economic development officials and producers on what you are going to do and how you are going to do it.
- ✓ Location of the processing facility is very important – economics should drive location decisions, not emotions.
- ✓ The purchase of corn by NEMO Grain has driven the corn basis of corn up 20 cents per bushel within a 100-mile radius of the plant – even for farmers that don’t sell to coop.
- ✓ A 40 million gallon per year ethanol plant is a medium sized facility today.
- ✓ Public services and grant programs should never remove the total “risk” of investors and farmers. This risk drives good management.
- ✓ We hired a consultant to help evaluate 10 ideas to increase farm income.
- ✓ Margins are tight on traditional farm commodities – we need to identify other types of income if our family farm is to be successful in the long run.
- ✓ We hired the wrong consultant the first time – so we fired that one and hired a better one. If you use a consultant be sure and select one that will indeed be able to help you.
- ✓ We had some preliminary studies done for 10 different ideas . . . 3 of them were deemed workable and we have selected one (probably edible soybeans).

**Questions to Consider:**

1. What type of “support structure” do we have in Tennessee to help new cooperatives get started?
2. What would the ideal “support structure” include?
3. How can Tennessee compete with the types and amounts of public sector financial assistance and support structure in Missouri?
4. How can public, private and check-off type funds be leveraged to provide assistance and/or funding for cooperative projects?