



CROPP Cooperative
*The Cooperative Regions of Organic
Producer Pools*

A Case Study
Prepared for the North Central Initiative for Small Farm Profitability
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Introduction

This case study is one of four in a series that are focused on so-called “new generation cooperatives,” or NGCs. While the first recognized NGC dates back to 1972, most were formed in the 1990s, and they continue to be formed today.

NGCs differ from traditional cooperatives in several ways. First, farmers invest significant dollars up front by purchasing shares in the business.

Second, each purchased share allows and obligates a producer to deliver a set quantity of raw product to the co-op.

Third, there are a limited number of shares, and in that sense the co-op is closed or limited to a set number of producers. This is intended to match incoming raw products to the capacity of the plant and the demand for the end product.

Finally, the ownership shares can be traded among farmers, and the price of those shares may

rise or fall, reflecting how much the farmers expect to benefit from their membership in the future.

The co-op in this case study might best be termed a “hybrid” NGC. Consideration of the CROPP Cooperative of La Farge, Wisconsin will follow an overview of the organic industry in which it operates.

Organic Industry Trends

Sales of organic food have grown dramatically in recent years in the United States and internationally. In the early 1990’s, organic food became increasingly available to U.S. customers as natural food stores began growing in size and product selection. The growth of natural product supermarkets such as Whole Foods and Wild Oats helped spur this growth. During the late 1990’s, moreover, conventional supermarkets began integrating a wider selection of organic

products. (Myers, 2000).

In 2001, organic sales at conventional outlets accounted for 49% of total organic retail sales—with most of the rest (48%) accounted for by health and natural product store sales.

Sales of organic foods overall in the U.S. are growing 20-25% annually. Organic sales were estimated at \$7.8 billion in 2000, a 20 percent increase over 1999 sales. Sales over the Internet are expected to grow from \$0.5 billion to \$3 billion in the next 4-5 years.

Organic sales are also increasing in world markets--particularly Japan, Denmark, France, Germany, Italy, the Netherlands, Switzerland, and the U.K. *The Natural Foods Merchandiser* (NFM), an industry trade publication, estimates that exports accounted for about 5% of total U.S. organic food sales throughout the 1990’s. (Greene, 2001)

Not surprisingly, organic farming is increasing along with organic food sales. According to the USDA’s Economic Research Service, organic cropland more than doubled in the U.S. during the 1990’s. Organic certifying agencies in several states reported substantial increases in organic certification from 1997-1999.

In the livestock sector, eggs and dairy are growing even faster than other areas. The number of certified organic milk cows nearly tripled between 1992-1997 and nearly doubled between 1994—1997. (Greene, 2000) Organic milk sales grew by 500 percent between 1994 and 1999 as more organic milk processors entered the market

Share of U.S. Organic Food Sales by Retail Outlet Type (2000)

Type of Outlet	Share (%)
Mass Market Outlet	49%
<i>Supermarkets</i>	44%
<i>Other mass market</i>	5%
Health & Natural Product Sales	48%
<i>Natural food supermarkets</i>	31%
<i>Natural food stores</i>	12%
<i>Natural food cooperatives</i>	2%
<i>Supplement chains/stores</i>	3%
Farmers’ Markets/CSA’s	3%
Total	100%

* Drugstores, mass merchandisers

** Community supported agriculture

TABLE 1: From Myers, 2001

and more mainstream supermarkets began to sell organic products.⁴ Organic milk sales reached \$75.5 million in 1999, and in 2000, organic dairy products made up 11% of U.S. organic food sales. (Myers, 2000)⁵

CROPP Cooperative/ Organic Valley

CROPP Cooperative has ridden the crest of this wave of growth in the organic sector. Starting in 1988, they have grown from nothing to a \$100 million company in just over thirteen years.

For most of those years, the acronym CROPP stood for the “Coulee Region Organic Produce Pools”. Only recently, in recognition of their now national scope of membership, did they abandon the namesake of their local area in favor of the more expansive “Cooperative Regions of Organic Producer Pools”.

And while familiar to consumers around the country by their brand name, “Organic Valley,” closer to home the co-op is known simply as CROPP.

In 1998, the co-op was recognized by the Governor of Wisconsin as the state’s #1 Rural Initiative. This was an acknowledgement of the impact that the co-op has had in the state, especially within the farm economy. Driven by a company philosophy that is strongly committed to the family farm, CROPP’s success has been transferred back to its farmer-members in the form of consistently higher milk prices

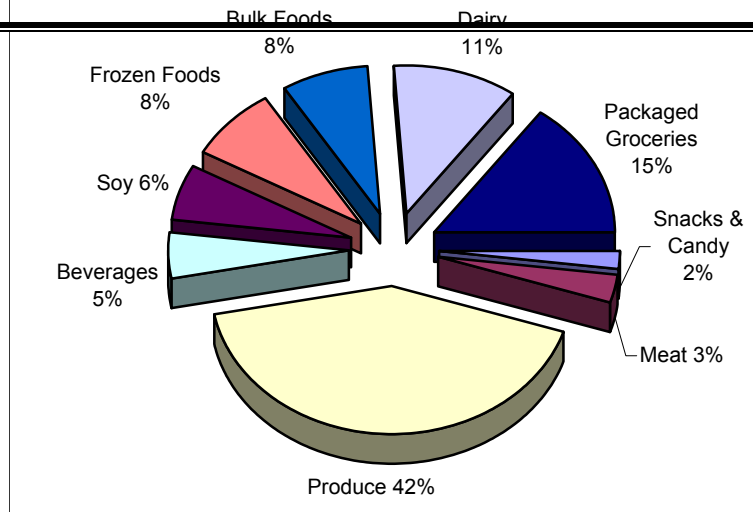


Chart 2: Myers, 2001

and a significant return on their equity investment.

Start-up Struggles

Like most other successful businesses, CROPP’s startup was filled with obstacles. The company was initially formed to market organic vegetable products. But according to co-founder Jim Wedeberg, they soon shifted to dairy, in part because they realized that a year-round-market for organic dairy products would be more stable than seasonal vegetable markets. Furthermore, they decided to focus on cheese products, which have a longer shelf life than fluid milk and therefore required less intense management and staff.

Getting into the organic dairy market, however, was difficult. When Wedeberg approached George Siemon in 1988 about forming an organic milk pool, there were no standards available for certifying milk as organic. At that time, the Organic Crop Improvement Association (OCIA) concentrated on fruits and vegetables. Consequently, Jim and the other dairy farmers had to form their own organic standards on feeding and herd health practices and submit them

to the national OCIA for critique. This involved a lot of research and meetings.

CROPP also faced regulatory obstacles. Wisconsin laws prohibit a group of farmers from shipping their milk together without appropriate licensing. Fortunately, several of the original farmers were members of the NFO, which offered to handle the required licensing, write milk checks, and test milk as long as CROPP dairy members joined the NFO.

According to Wedeberg, the “NFO was the reason we got off the ground.” (McNair, 1994) In addition to the regulatory and administrative assistance, the NFO helped finance the co-op’s initial cheese inventory with a substantial loan offered under exceptionally good terms.

“Creative financing” was another key to CROPP’s early success. For instance, they needed a building to house their new operation, and found one in La Farge that cost only \$25,000. However, the cash-strapped founders lacked the money for even that modest investment. So they worked out a deal with the building’s owner to liquidate an old vat in the basement of the property, and they used the income from that sale to cover their down payment!

Ultimately, however, the ability of the cooperative to survive these early years was due to the commitment of the CROPP farmers and their willingness to take financial risks. The seven original CROPP producers shipped 20,000 pounds of milk every other day in 1988. Cheese was made at Springdale Cheese Factory near Richland Center. At that point, CROPP was not involved in marketing their products, but relied instead on a distributor.

In those early years, the prices that the co-op paid its farmers for their milk hardly covered their higher organic production costs. That’s because their original distributor sold less than 40% of the member’s production through organic channels, unloading the rest at commercial market prices.

Through 1991, after creating its own label and trying to expand its distribution network, CROPP still only had 10 members. Organic premiums held steady at about \$2 per hundredweight over the conventional price. And while local lenders were leery of what was then a very unproven

CROPP Mission Statement

We, the family farmers of Organic Valley, are committed to:

- Cooperatively market the finest in certified organic products produced exclusively by our family of farmers.
- Market nutritious, wholesome food as directly as possible to the consumer.
- Establish farmer-determined prices which provide the farmer with enough profit to sustain his family and his farm.
- Encourage a farming future that emphasizes ecological diversity and economic sustainability.
- Enable a healthy human livelihood by providing quality employment, cooperation, organic education, and community growth.
- Practice environmental awareness and cooperative principles in all aspects of production, handling, marketing and operations.
- Promote a respect for the dignity and interdependence of human, animal, plant, soil, and global life.

Sidebar 3: From the CROPP Website: organicvalley.com

market, Wedeberg says that the farmers “were determined to hang in there and see it through.” (McNair, 1994)

Fortunately, CROPP received a grant at this time from the Wisconsin Agriculture Department’s Agricultural Development and Diversification (ADD) program. They used these funds to improve upon their label and hire more sales people. They began showing their products at trade shows around the country, and they also started cutting and wrapping their own cheese in their La Farge headquarters.

Around this time the co-op also ran a successful equity drive—members agreed to provide \$11 of equity for each 100 pounds of average month milk production. (McNair, 1994) We will return to this issue of

equity capitalization at the end of this case study, at which point we will also consider how CROPP varies from the “new generation co-op” model.

Creating a Marketing Company

Jerry McGeorge is a member of the CROPP management team and carries the title of Cooperative Coordinator. According to McGeorge, one of CROPP’s biggest marketing challenges early on was consumer education. During the co-op’s first few years, there wasn’t any money in the budget for consumer education about organics. General public awareness of the meaning and purported benefits of organic food was still quite low, and consumers balked at the high prices of CROPP’s organic dairy

products—which were the only ones on the shelf in most stores.

Nevertheless, McGeorge believes that CROPP entered the market at a good time. During the early-to-mid 1990s, the organic market really took off, and other companies began offering organic dairy products. At that stage, there was plenty of room for competitors, and McGeorge actually believes that the new entrants to the market actually helped CROPP. “When consumers saw that others were charging prices similar to CROPP, they realized that the co-op wasn’t charging them unfairly.” In addition, McGeorge and Wedeberg both believe that increasing public concern about Bovine Growth Hormone (BGH) around 1994 helped organic dairy sales tremendously.

One of the keys to CROPP’s success is that they never invested much money in “bricks and mortar”. Instead, they “co-pack” with 45 different dairy processors around the country.

As Wedeberg says, it’s an arrangement works out well for all parties.

Many of the co-processing plants that currently work with CROPP were operating under capacity when the co-op approached them to custom process on their behalf. These cheese makers, creameries and bottling plants were willing to adhere to organic processing rules in order to attract the new business.

In 1990, CROPP introduced the nation’s 1st organic butter, and in 1992, they became the organic milk supplier for America’s 1st nationally distributed organic yogurt brand. Between 1995 and 2000, they launched several more “firsts” in the organic industry, including Parmesan cheese, cottage cheese, string cheese, “high heat processed” fluid milk, as well as a lactose-free milk.

In the meantime, they also built up a sizable business in organic egg sales. And in 1999 CROPP launched a second

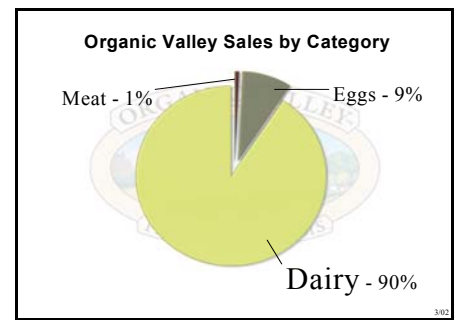


Chart 4: Source: CROPP Co-op

brand, “Valley Family of Farms”, to market certified organic beef, pork, turkey, and chicken. (At that point, USDA rules did not permit organic meat to be marketed with the word “organic” in the brand name.)

Currently, approximately ninety percent of CROPP sales are dairy products, 9 percent are eggs, and 1 percent is meat. In recent years, the co-op decided to market other products like orange juice, mainly because in many stores these products are sold in refrigerated cases alongside dairy products, and having a wider space on the shelf gives them more exposure to the customer.

A big part of CROPP’s success has been its development of its primary brand identity: “Organic Valley”. Currently, about 75% of its sales are under that brand, compared to 7% private label, 11% bulk product, and 7% for manufacturing ingredients.

During the mid-1990’s, CROPP grew dramatically. In 1993, orders from natural food stores increased, and by the end of 1994, CROPP handled 2.5 million pounds of milk (a 150% increase over 1993) and had 59 members. Milk routes expanded to include eastern, western, and

CROPP Production Locations



Map 5: Source: CROPP Co-op

northern Wisconsin and Minnesota.

CROPP's customer base expanded nationally when companies started using CROPP's organic milk in their dairy products. And from the mid-1990s to present, both co-op membership and sales have grown tremendously. In 2001, CROPP's sales reached \$100 million, and 2002 sales are projected to reach \$125 million. Furthermore, it is estimated that their products are currently found in some 25-30,000 stores, including many Walmart outlets.

While CROPP's dairy and eggs sales are going strong, its meat sales are not doing so well at this time. That is partly because of USDA organic labeling issues. In October 2002, however, new USDA labeling policies should finally allow them to include the word "organic" more prominently on their meat label, which may improve sales.

Impact on Co-op Members

As of March 2002, CROPP had 417 producers—296 dairy producers, 35 egg producers, 9 pork producers, 28 beef producers, 31 vegetable producers, 4 broiler producers, and 14 citrus producers. The citrus producers are under their own umbrella—only one of them is an official member of CROPP. Producers are located in ten states: Oregon, California, Minnesota, Iowa, Wisconsin, Illinois, Vermont, New York, Pennsylvania, and Florida.

Most CROPP farmers are considered small to medium-sized—although classifications vary depending on the region. The average herd size for CROPP dairy farms is about 50 cows, but herd sizes range from 20 cows to as many as 400. CROPP includes very few dairies on the high end of this range—most of which are located in California and the Pacific Northwest. By comparison, in 2000, 12 percent

distributing premiums in the milk checks every two weeks.

Not only is this a variation of the more traditional co-ops, which often retain 70-80% of profits each year in order to build equity, but it's a variation from the new generation co-ops too, which typically pay market rates for farmers product upon delivery, and wait until the end of the year to distribute profits back in the form of a "value added check". CROPP members

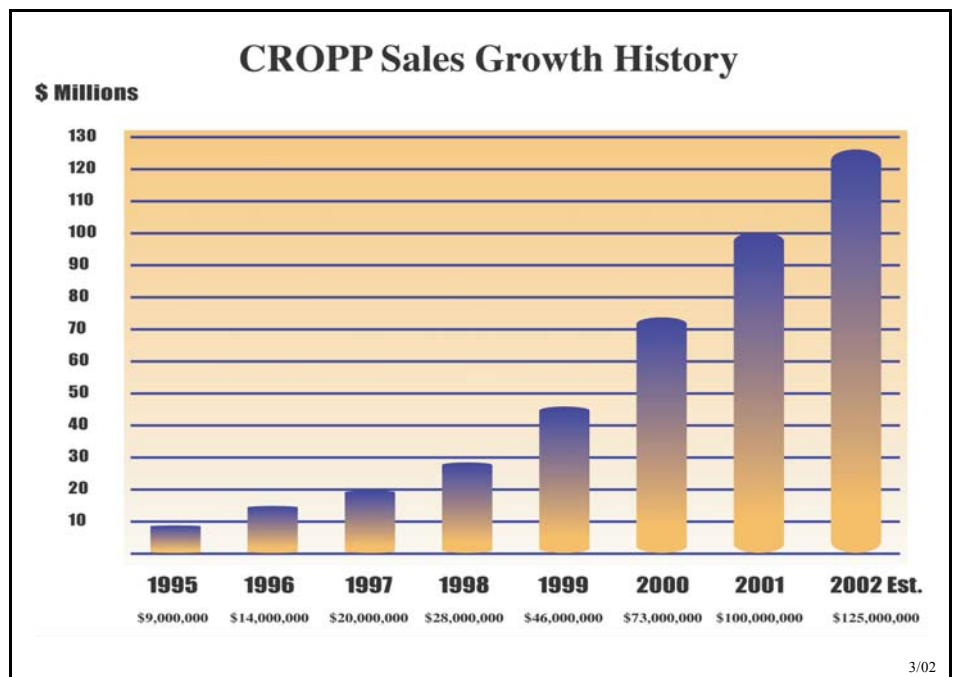


Chart 6: Source: CROPP Cooperative

of dairy farms nationwide had 50 or less cows, 22 percent had between 50-100 cows, 35 percent had between 100-500 cows, and 31 percent had over 500 cows. (USDA, 2001)

Members benefit financially in three ways. First and foremost, they receive significant premiums for their organic milk. CROPP has essentially made a decision to transfer its profitability back to its members on an on-going basis, by

insisted that they receive larger milk checks up front.

CROPP's "pay prices" are probably the number one reason most dairy farmers joined the co-op. Essentially the dairy members collectively set the pay price based on their costs of production. As a result, throughout the 1990's and up to present, CROPP farmers received milk checks that hovered substantially above conventional prices.

In 2000, for example, the Organic Valley price was \$17.18, which, they reported, was \$6.61 over the conventional price of \$10.57. (See Chart 7 below. Data for conventional prices was provide by CROPP and was not verified by UWCC.) In 2001, they reported that conventional prices rose to \$13.74, while CROPP prices remained steady at \$17.53. For farmers, the stable pay prices that CROPP maintains are a welcome relief in a relatively unstable farming environment.

The second way that members benefit involves a CROPP policy of paying their members 8% interest on their equity investment. This is quite unusual in the co-op sector.

Finally, members also benefit financial from a relatively fast return of their retained (non-direct) equity investment. (Their direct equity investment is not

returned until they retire.) The state CROPP policy is to return members' retained equity on a seven-year cycle. If true, this would be a fairly quick turnaround compared to many traditional co-ops, which may take fifteen tot twenty-five years to revolve back equity.

There are many other advantages to CROPP membership in addition to good pay prices. As with all co-ops, CROPP members are owners of the organization. Most importantly, according to Wedeberg, even as the company grew from "seven farmers sitting around a table" to a large organization, it built in ways to make sure that members could participate in the decisions of the organization if they wanted to.

Farmers still have a lot of say in determining pay prices, marketing strategies, and other organizational decisions. The

Board of Directors is active and farmer-controlled. All of the produce categories are grouped into producer pools, and each pool meets monthly to make decisions. Each region elects a representative to make sure that concerns of farmers in that region are heard by the CROPP management team.

Overall, CROPP producers interviewed for this study were very pleased with their experience of the cooperative. All of the farmers (4 dairy producers and 1 egg producer) were already organic when they joined CROPP, but were getting conventional pay prices and were having a hard time making it financially. CROPP gave them higher pay prices and did the marketing work that they did not have time or background to do on their own.

All five farmers interviewed came into the program with a

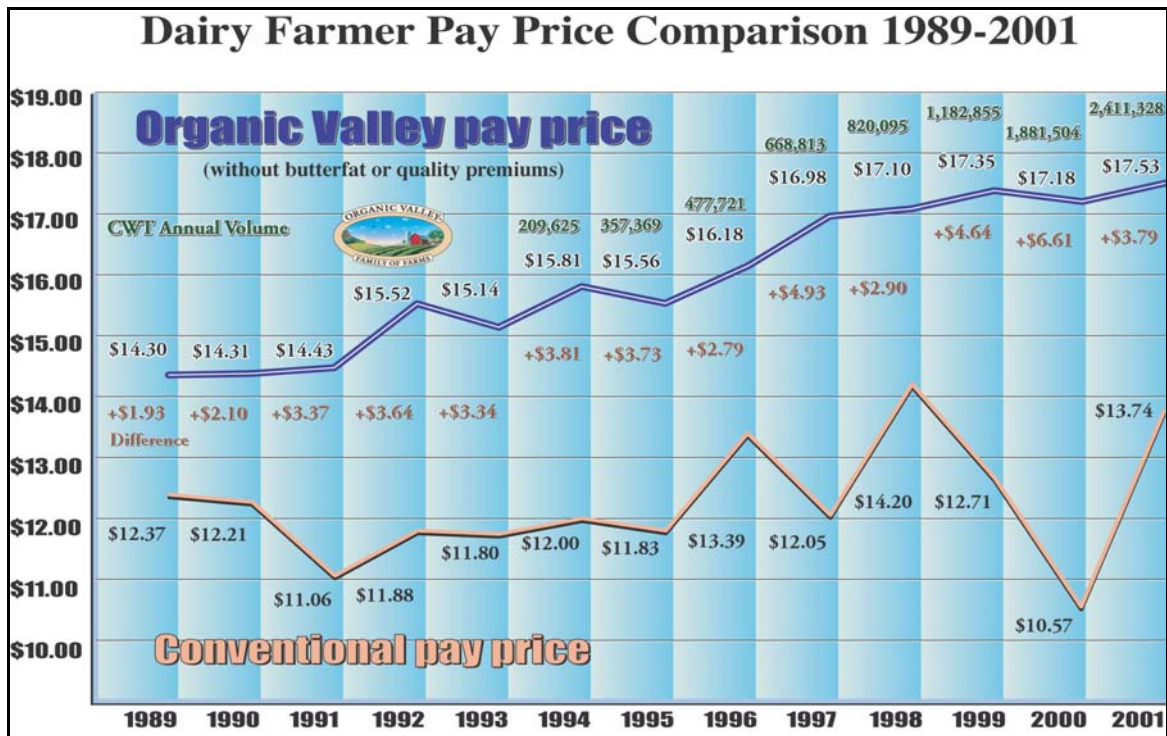


Chart 7: Source: CROPP Cooperative. Data for conventional prices was provide by CROPP and was not verified by UWCC.

strong commitment to organic farming and sustainable agriculture. Jim Grimm, a Wisconsin dairy farmer with 45 cows, said that he joined CROPP in 1993 after farming organically on his own for about thirteen years. He said that even though most of the farmers in his area were conventional farmers who just “went with the group”, he “always knew that organic was the right thing for the soil and for the animals.”

Joe Placke, another Wisconsin dairy farmer with 70 cows, joined CROPP four years ago after farming organically for about six years. Like Grimm, he switched from conventional when he decided that he “just didn’t want to use chemicals anymore” because he felt that organic was “healthier for the people and the animals.”

Duane Bushman runs an egg and dairy farm in Iowa along with his three sons; altogether they have 140 dairy cows and between 18,000-20,000 chickens. Bushman had an even more personal reason for switching to organic. In 1982, a bag of insecticide broke in his hands, and he later got a brain tumor that, in his opinion, is connected to exposure to the insecticide.

Bushman marketed his organic products on his own until the early 1990’s, when CROPP began their egg program. He expressed particular concern about the overuse of hormones in animals, calling it “one of the saddest things about conventional commercial herds.”

Jim Grimm, similarly claimed that his own cows live to

about 13 years, whereas on the big conventional farms, animals live much shorter lives. Both farmers believe that the quality treatment of animals is one of CROPP’s most important requirements, and one that contributes greatly to the high quality of CROPP’s products.

Beyond their firm commitment to organic production, the farmers interviewed all felt that CROPP membership was helping them survive financially. Joe Packe said that the “biggest thing is that CROPP helps me get a better price for my milk.” Bushman stressed that alone, farmers cannot make it in the organic niche market, but farmers working together through CROPP can hold a significant portion of the organic market and make a profit.

Bushman said that he appreciates the stable pricing CROPP offers for his eggs and milk, and the fact that CROPP “makes sure profit goes into farmer, not into the co-op.” Jim Grimm said “if it wasn’t for CROPP, I’d get out of it.” (The challenge of balancing prices paid to members with the equity needs of the business can be an Achilles heal of cooperatives. This will be discussed further in the conclusion.)

Busman described neighbors who were desperately trying to compete with the bigger farms—growing from 100 or fewer cows to 500-600 cows—but never quite able to keep up. Many of them, Grimm said, “don’t even own their farms and probably never will.” Several other farmers described similar scenarios in their areas.

Several farmers mentioned that they were pleased with CROPP’s organizational structure and producer pools, because they encourage active involvement and give farmers more voice in decisions made by the organization.

Growing Pains

Despite the affirmative attitudes of CROPP members and the upward trend in the cooperative’s gross sales, major challenges lie ahead. Both CROPP farmers and managers expressed concerns related to the growth of the co-op and the pressures of outside competition.

Some of the farmers interviewed (who wished to remain anonymous) expressed concern about how the increasing size of the organization would affect farmer participation and their voice in organizational and marketing decisions. Moreover, to handle marketing and sales, CROPP’s administrative staff has grown to about 200—about one-half the number of farmer members. Most of these employees are not farmers, and have been trained in conventional marketing. A few farmers expressed concern that these employees might not be committed to the co-op’s central mission.

As CROPP’s sales levels and national recognition grow, farmers from around the nation are joining the organization. One farmer said he was concerned about commitment and experience of some of the farmers joining the CROPP bandwagon, and more importantly, the quality of their

products. As he said, “people who aren’t true farmers, a lot of them from out East, are joining CROPP. These people could give Organic Valley a lot of problems.”

For example, he has seen new CROPP members who were new to egg production make bad decisions about feed and cause CROPP egg quality and production levels to go down. These bad decisions, he says, affect everyone in the egg pool—and ultimately everyone in the co-op. He felt strongly that one of CROPP’s challenges as they grow will be to “identify who is a farmer...the people who give us trouble are people who aren’t real farmers.”

Several farmers said that even though they were very pleased with their past experiences in CROPP, they were a bit worried about CROPP’s current direction. More specifically, they weren’t confident about the co-op’s decision to “go big” and compete with the other major players in dairy and organic foods. As one farmer said: “As we get bigger, we try to compete with all the other products out there... everyone thinks we need to have it all. We’re trying to get bigger than Horizon. But that’s not necessarily where the farmers want to be.”

Moreover, a few farmers expressed concern that as the organization and administrative staff grow, they are becoming less able to address the wide range of concerns of the farmers. The co-op increasingly depends on newsletters to communicate with its hundreds of producers, and as one farmer stated,

“farmers become removed from what’s happening in management.” Newsletters, he added “only tell us some of the story, the part the management wants to tell, and other things are hidden...they feed everyone the same information.” He added that even though meetings and other decision-making processes were open to farmers, agendas for the meetings were often set beforehand by management.

CROPP management is definitely aware of the challenges that have come with growth and success. They seem particularly concerned today



CROPP members shown in their promotional literature.

with increased competition and the limitations of their capital base.

Jerry McGeorge says competition is certainly becoming more acute. When the co-op first started, there were only a few other regional players in the market— such as Brown Cow, which captured a large portion of the northeastern U.S. market.

Today, CROPP’s number one competitor is Horizon, a private firm that entered the market about the same time as

CROPP, but focused on marketing fluid milk and eventually became the leader in that category. Horizon now controls about 50% of that market, compared to 35% for CROPP.

Buyouts by big dairy companies are also becoming more common, intensifying competition in the dairy market, and making it difficult for consumers to know who is producing and processing the product they purchase. The entrance into the organic market by companies like Suiza (which recently merged with Dean Foods, which itself owns a 12% stake in Horizon) has further intensified competitive pressures.

A “Hybrid” New Generation Cooperative

Before considering CROPP’s strategies to deal with its capital limitations, we will first return to the topic of “new generation cooperatives, or NGCs, and explain how CROPP represents a “hybrid” version of that model.

At first glance, it might appear that CROPP reveals none of the four structural traits of NGCs. Farmers are not required to make “up front” investments, but rather portions of their milk checks go toward their equity accounts until they meet their commitment.

Furthermore, CROPP does not utilize “capital shares” like most other NGCs. Shares are not traded, they don’t change in value, and they don’t obligate a producer to deliver a set quantity of raw product. Lacking all of



From the packaging of Organic Valley products

these traits, how can the co-op be considered a hybrid NGC?

One reason is that CROPP is essentially a closed co-op, which is a key feature of NGCs. New members are taken on only as demand for organic milk increases. Furthermore, current members only receive premium prices for milk that is sold into organic markets. (Currently about 98% of the co-op's milk is sold as organic.) Matching supply to demand is an essential characteristic of new generation cooperatives.

And while CROPP members may not have made their equity investments "up front", since 1988 they have made significant capital contributions. Some of the larger members have up to \$90,000 invested in the co-op.

CROPP members currently contribute capital to their co-op in two ways. First, there is the "direct equity" investment, which requires that every member make an equity contribution equivalent to 5½ percent of their annual income from CROPP. (This can be paid all at once or more typically is subtracted from the milk check until the obligation is met.) That means that as their production

and income grows year-to-year, their capital requirement also increases, and they must pay more into their equity account.

Members also contribute equity in the form of "retained patronage refunds". When a co-op is profitable, the board of directors has the option of returning some or all of the profits back to the members in cash at the end of the year, distributed in proportion to each member's patronage. Alternatively, they may retain profits and allocate them to members' equity accounts, to be "revolved" back at a later date. Finally, the board may choose to retain profits but not allocate them to individual members. The latter equity essentially becomes common property, and will stay with the co-op until it dissolves.

Another feature of NGCs that is often cited is their orientation toward meeting market demand in order to achieve profitability. Certainly many of the older generation of agricultural marketing co-ops would also claim to fit that description. But most traditional co-ops accept unlimited supplies of raw product and then figure out what

to do with it, often accepting low prices from buyers and passing little or no profit back to their members.

The theory behind new generation co-ops, on the other hand, is to limit supply to match demand, and often they target higher value markets in order to generate profits that can then be transferred back to the members in cash as quickly as possible.

CROPP is certainly market-oriented. Bedessem explained that they are not a production co-op, in the sense that they do not focus on "moving" raw product. Nor are they a processing co-op, focused on turning milk into cheese and other dairy products. Instead, they can best be described as a marketing co-op, focused almost entirely on getting their "Organic Valley" branded products into consumers' refrigerators. They invest approximately 14% of their earnings each year into promoting their brand.

Finally, the fact that CROPP has been able to transfer its success back to its members would further establish them as a new generation cooperative. A visit to their modest headquarters in La Farge, Wisconsin is an

indication that cooperative profits are not being diverted unnecessarily from where they really belong: back in their members' pocketbooks.

Conclusion

Recent years have been exceptionally good to CROPP and its members. The obvious question is how long will the good times last? It will certainly not be easy to compete in the market with larger players like Dean Foods. As members and managers have expressed, the challenge before CROPP now is whether and how it can continue to compete without forfeiting its commitment to family farm profitability.

Essentially, they are facing a problem that is common throughout much of the agricultural co-op sector, namely, how to compete with private firms who have fewer restrictions on access to capital. There is only so much money that a group of farmers can afford to invest off their farms.

A related challenge for CROPP, and for most agricultural co-ops, is the need to revolve equity back to the members. CROPP members currently have about \$5.5 million in equity invested in the co-op. In recent years, about 20% of the co-op's profits have been used to revolve back the members' retained equity. To continue their present rate of revolvment, CROPP must maintain profitability.

But for CROPP to stay profitable, it needs to remain competitive, and that will undoubtedly require new capital

investment. A major constraint is that their current and incoming members cannot supply capital as quickly as it's needed.

Another option, which CROPP does not appear to be considering, is to lower the prices that they pay for their members' milk. High pay prices are what attracted many members to the co-op and to organic production practices. However, there is a balance that must be achieved. If high prices are paid to farmers now, while neglecting to position the co-op to be competitive in the future, then the gains now could turn into tragic losses down the road. In the past year, several significant bankruptcies among long standing co-ops have occurred at least in part because this delicate balance was not maintained.

Rather than lower pay prices, CROPP is currently reexamining its approach to equity and capitalization. One option on the table is to end the policy of paying interest on members' equity. This policy is relatively rare in among farmer cooperatives, and those interest payments could go instead toward capitalizing the co-op. Nevertheless, discontinuing the interest payments would be a clear retraction of member benefits.

CROPP is also in the process of getting a 521 IRS exemption so that it can meet the requirements of the Security and Exchange Commission (SEC). This will facilitate the sale of preferred stock to the general public.

As stipulated by Wisconsin statutes, an 8% limitation on

dividend payments to preferred stock would still apply. Also, these preferred shareholders would no voice in the governance of the co-op, with the exception of decisions that affect the value of the stock (mergers, dissolution, etc.)

The limits on dividends and voting power would typically turn off many investors. However, Bedessem says that there is substantial support for the company among consumers in Wisconsin and nationwide, and CROPP hopes to raise as much as \$2-3 million from sales of preferred stock.

Other agricultural co-ops have turned to additional capitalization strategies in recent years. Some establish joint ventures with investor-owned firms, which usually requires an abdication of some control over the shared enterprise. One notable new generation co-op in North Dakota went so far as converting to a private corporation.

There seems to be no indication that CROPP is considering such strategies. As long as they maintain their current level of profitability, they will have some flexibility to convert profits into much needed equity capital. But as the organic industry becomes more competitive, that will be harder to do.

It would seem that the members of CROPP are facing a critical juncture in the evolution of their cooperative. Together, they have been part of something very successful, watching their sales grow to phenomenal heights over the past fourteen years. Where they go from here

will depend a lot on the growth of organic markets and the actions of their competitors. They must identify where they will fit best within that

marketplace. They must maintain a sufficient level of capitalization to compete there. Hopefully, they can accomplish those goals while staying true to

the mission and the principles that got them where they are today.

2003 Update: On December 30, 2002, a CROPP press release reported 2002 sales surpassed \$125 million. They are projecting sales of \$212 million by 2005. They report that the organic industry is still growing steadily at 20%, driven in part by organic milk sales, which are growing at a rate of 27%. CROPP continues to ride this wave of growth with their Organic Valley brand of food products.

Ninety-four new farms joined the CROPP family in 2002, increasing their national membership to over 500. Their members brought 94,000 more acres into organic production in 2002, for a total of 75,000 acres. 3,810 cows were added to their system, for a total of 17,800 cows.

CROPP CEO George Siemon reported that in November 2002 CROPP members in Wisconsin received a pay price of \$20.02 per hundredweight, while the conventional price, as they reported it, was about \$11.

Competitive pressures, of course, have not lessened, and the co-op still faces the fundamental challenge of meeting their capital needs in order to remain competitive and profitable in the future.

Meanwhile, the Wisconsin Federation of Cooperatives and the Minnesota Association of Cooperatives are each working in their respective states to create new co-op legislation. Modeled after a new Wyoming co-op statute, the new co-op laws, if passed, should make it easier for co-ops to attract outside (non-farmer) capital. In exchange for the flexibility on capital acquisition, farmers will forfeit some degree of control as well as a share of any profits the company earns.

Reorganizing a preexisting co-op like CROPP into the new co-op structure will probably involve prohibitive tax penalties. However, the new state laws, which would essentially create a modified limited liability company (LLC) with a co-op name, may be the best option for farmers who are looking to start new ventures but lack sufficient capital to do it entirely on their own.

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