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SANJIB BHUYAN

Abstract

The principal goal of shared-services cooperatives is to capture savings through lower administrative costs, quantity purchasing discounts, sharing fixed costs, and assured levels of business with vendors and suppliers. Although the idea of cooperation is not new in North Dakota, the question raised here is whether there is potential applications for non-agricultural shared-services cooperatives that provide services that are absent or inadequate in rural communities in the state. It is concluded that there is potential application for shared-services cooperatives in both public and private sectors in North Dakota based on opportunities to share fixed costs and to capitalize on pecuniary economies of size.

Keywords: shared-services cooperatives, non-agricultural cooperatives, North Dakota

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POTENTIAL APPLICATIONS FOR SHARED-SERVICES COOPERATIVES IN NORTH DAKOTA

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The idea of cooperation is not new in North Dakota, which is known throughout the United States for its leadership role in cooperative development. There are over 400 cooperatives in the state -- not surprisingly most of them are agriculture related. In general, these cooperatives were formed to achieve higher prices for their member-farmers' produce or to provide farm supplies at a more competitive rate than other forms of business. Thus, most of the cooperatives found in North Dakota deal with agricultural input or output marketing. More recently, North Dakotans have also seen a new wave of value-added cooperatives which are mainly associated with processing farm products such as wheat, corn, and milk -- these cooperatives fulfill the processing stage of the food marketing system. Irrespective of their type, the basic aim of all these farmer-owned cooperatives is to increase members' income.

There is also another type of cooperative called shared-services cooperative,' which is more common among private businesses and government entities. These cooperatives are not necessarily related to agricultural production or marketing. A shared-services cooperative is established by a group of public entities or private businesses to provide products/services to its members at lower cost. The goal is to capture savings through lower administrative costs, quantity purchasing discounts, sharing fixed costs, and assured levels of business with vendors and suppliers (Crooks *et al.*, 1995).

Many communities in North Dakota find it financially difficult to provide such necessary services as public safety, water and sewer services, or garbage disposal. Moreover, many rural communities also lack such non-civic services as grocery stores, retail stores, restaurants, and clothing stores, which are necessary for the well-being of such communities. Such problems are common in communities where both population and businesses are declining gradually over the years. Given that shared-services cooperatives can provide services at a reduced cost to members, the obvious question is whether this approach has potential in North Dakota to provide the services that are absent or inadequate in rural as well as in urban communities. For example, could a few adjacent rural communities form a shared-services cooperative to purchase expensive equipment or operate a recycling facility? Similarly, could closely related independent businesses establish a shared-services cooperative to purchase supplies and equipment to reduce cost? These are some of the questions that will be explored in this article.

What is a Cooperative and Why Cooperate?

Cooperatives are user-owner and user-controlled businesses that return net income to users or patrons, based on their patronage, while other business firms return net income to investors on the basis of investment. Thus, the term investor-oriented firm or IOF is used in

cooperative literature to distinguish cooperatives from other forms of business. The primary motivation for member participation in a cooperative is to improve their income. However, when public entities form cooperatives, their usual motivation is to reduce cost. It is argued that most cooperative approaches evolve out of attempts by individuals or firms to address two major economic problems: market problems or a lack of economies of size (Anderson *et al.*, 1995). Market problems may arise when the conditions for competition are imperfect (not workable) due to too few buyers or sellers, lack of consistent product quality, barriers to market entry, imperfect knowledge, or an imbalance of market power. Similarly, firms or individuals may not be able to compete because they do not have the volume to achieve potential economies of size. Thus, irrespective of the type of cooperative, i.e., agricultural or non-agricultural, cooperative approaches can be adapted to develop solutions to common problems.

Some of the economic solutions that a cooperative approach might allow (Anderson *et al.*, 1995) may be to (1) overcome high individual fixed costs by spreading fixed costs across the group, (2) increase bargaining power for marketing or purchasing supplies or acquiring services, (3) reduce redundant resources of the group members by consolidating operations, (4) reduce risk and uncertainty by spreading risk among members, (5) improve market coordination or efficiencies, (6) improve quality of product or service by setting group standards or negotiating premium prices for quality, (7) penetrate new markets otherwise inaccessible by individuals, (8) improve access to information and share costs of securing information, and (9) overcome isolation from markets or sources of needed services. The shared-services cooperative approach is based on similar economic rationale. Like other cooperatives, a common mission of shared-services cooperatives is to provide goods/services at a more favorable rate than IOFs. Because the members of shared-services cooperatives are generally engaged in related or similar types of businesses, they form cooperatives to find ways to solve members' common problems.

Although shared-services cooperatives follow such typical cooperative structural and operational principles as user-owner, user-control, and user-benefits, several factors make these cooperatives unique. For instance, (1) these cooperatives generally do not deal with agricultural product or service activities, (2) members are typically independent private businesses or public/government entities engaged in similar types of business, and (3) instead of producing any new products, generally these cooperatives acquire and provide supplies and services at a reduced cost to their members.

Shared-services Cooperatives and Rural Communities

The shared-services cooperative concept is important to planners and policy makers, because this concept may be applied to maintain or improve the quality of life in rural communities by providing missing or inadequate goods and services. Strategic alliances among rural communities through establishment of shared-services cooperatives may be an effective way for these communities to empower themselves, i.e., through strategic alliance, these communities may be able to create jobs, attract new businesses and services, and strengthen their local economies.

Public entities, such as municipalities or county governments, in some states have started joint purchase of expensive but under-used equipment and various supplies and services through shared-services cooperatives to increase their negotiating and buying power. For example, the Western Area Cities/Counties Cooperative (WACCO), established by 19 cities and 7 counties in Minnesota, started with sharing costly but under-used equipment and then extended its functions to provide employee training and purchasing supplies (e.g., road salt, road-grader blades, striping paint). In southeastern Wisconsin, 65 communities, counties and school districts formed a group

called VALUE or Volume Acquisition of Local Uniform Expenditures as a purchasing partnership and reported substantial annual savings. Many states are also adopting the cooperative approach to recycling. For example, in Wisconsin, the Mount Horeb Farmers Cooperative has joined with private partners to form Agri-Paper Recycling; it recycles newsprint into animal bedding. In New Hampshire, a nationally known cooperative recycling agency -- the New Hampshire Resource Recovery Association (NHRRA) -- has been providing recycling education, technical assistance, and marketing services to the state's municipalities and other members since 1983. Some public services that may be considered under the shared-services cooperative approach are police and fire protection, garbage disposal, recycling, water and sewer services, schooling for special needs students, and health care or health insurance for public employees.

North Dakota's current population is about 640,000, while there are 363 cities, 53 counties, 243 school districts, 225 fire districts, 224 park districts, 59 soil conservation districts, 23 irrigation districts, and 1,357 townships (Omdahl, 1996). Declining population, compounded by declining state and federal assistance, makes it difficult for these entities to provide or maintain necessary civic and related services, such as public safety, garbage disposal, and water and sewer services. Forming shared-services cooperatives by these government entities may be a feasible alternative. There are already some forms of cooperation among many communities in the state. The City of Hettinger in Adams County has contractual agreements with the county government and some nearby cities (e.g., Reeder) to share and provide such civic services as police protection and water and sewer services. More recently, the cities of Drake and Anamoose in McHenry County and the county government have formed a common economic development agency as a cooperative which will share and utilize resources from all three sources. In another instance, the City of Williston in Williams County provides its landfill facility to several nearby smaller towns, some of which are from other counties, including Alexander in McKenzie County and Crosby in Divide County, based on contractual agreements. The City of Jamestown and Stutsman County share a joint correctional facility and winter equipment (e.g., heavy earth moving equipment used for snow removal), and Minot and Ward County share a computer service facility and joint police, fire and emergency dispatch service. Private citizens and public officials in Enderlin in Ransom County started a recycling program with a state grant. This recycling service is freely provided to some nearby municipalities such as Sheldon, Alice, and Fingal. There may be potential application for such cooperative recycling services/facilities in other communities in the state. Recently the *Farm and Ranch Guide* (January 19, 1996) reported that legislators from both North Dakota and South Dakota are discussing the possibility of providing some state services (not identified) jointly to save money and improve efficiency.

A few civic service-related cooperatives already exist in North Dakota. All of these cooperatives are resident-member-owned and are involved in water and/or sewer services in rural areas. For example, the Manning Water Works Mutual Aid Corporation is a cooperative that pools money from its members (fewer than 25) for the water they use and then pays a private water supplier. Similarly, the Slope Estate Cooperative of Dickinson is a water cooperative operating since 1980 with one well and fewer than 15 members. In operation since 1975, the West River Water & Sewer District Cooperative of Minot is a civic service-related cooperative which provides rural water and sewer services to about 100 members spread across four sub-divisions west of Minot.

The fact that some North Dakota communities are cooperating to save and share their available economic resources demonstrates the potential for further cooperation in the public service sector in other communities in the state. By cooperating, communities are likely to reduce their operating costs, save taxpayers' money, and provide necessary civic services for quality

living, particularly in rural areas. Local community leaders and public officials may take the initiative to explore cooperation with nearby communities to provide or maintain these services in their communities/cities. Of course, shared-services cooperatives are no panacea for all problems facing rural North Dakota.

Shared-services Cooperatives, Private Businesses, and Non-profit Organizations

Private businesses may form service cooperatives to purchase supplies and equipment, train employees, or other activities to share and reduce costs. In this case, private businesses combine resources to capture benefits a single business enterprise may not realize if the tasks were undertaken individually. Individual franchisees of such well-known national chains as KFC, Taco Bell, Dunkin' Donuts, Dairy Queen, and Burger King are saving money on their food and supplies, equipment, advertising, insurance, service, and financing through forming service/purchasing cooperatives. For example, the Louisville, Kentucky, based FoodService Purchasing Cooperative was formed in 1978 to serve the thousands of KFC franchises. This purchasing cooperative saves each of its member stores at least $1,000 per month (NCB, 1994). Purchasing type shared-services cooperatives are also formed by independent hardware stores (e.g., Ace Hardware), restaurants, independent pharmacies, and retail food outlets (e.g., Independent Grocers' Association or IGA).

On a smaller scale, some rural electric cooperatives, independent beauty salons (e.g., Beauty Coop of Omaha, Nebraska), independent direct mailing contractors (e.g., Merchants Direct Mailer of Omaha, Nebraska), hospitals in various cities (e.g., Hospital Coop Laundry of Denver, Colorado), and various other businesses are forming cooperatives to provide services to their members at a reduced cost. Another form of purchasing cooperative is buying clubs. All of these shared-services cooperatives operate as wholesale businesses for their members. In addition, private businesses are also forming shared-services cooperatives to provide health care or health insurance to their employees.

There are no private sector shared-services cooperatives in North Dakota as of now. However, considering the population and income base (i.e., demand factors for goods and services) and the number of businesses (i.e., supply factor for goods and services) in, for example, the service sector, it seems that there is potential application for shared-services cooperatives among businesses. For instance, according to the *1992 Census of Industries*, there are nearly 1500 eating and drinking places, including restaurants, cafeterias, and bars, in North Dakota. However, such services no longer exist in many rural communities due to low demand (due to declining population) and relatively high operating costs. To remain competitive and continue to provide their services in rural areas, the existing restaurants and bars in North Dakota may consider forming shared-services (purchasing) cooperatives to buy such items as supply and equipment, insurance, and other services. Retail and service merchants, such as independent grocery stores, restaurants, or bars in a few adjacent communities may start with a less formal type of cooperation to have their supplies delivered together to reduce cost and perhaps eventually form a purchasing cooperative.

Another example for potential shared-services cooperative is in the banking sector in North Dakota. There are over 200 banking establishments in the state, which is relatively high given the potential customer base. As the competition for the businesses of limited customers grows, some members of the banking industry in the state may find that forming a shared-services cooperative to train employees, to purchase equipment and machinery, and to negotiate business deals could provide a competitive edge. Health care is another sector where there is potential application for private sector shared-services cooperatives in North Dakota. According to a recent study (Hamm *et al.*, 1993), on average, residents in North Dakota travel 34 miles to a hospital and back. They also

reported that out of the 60 or so major medical centers, most are located in the major population centers of the state; that is, Fargo, Grand Forks, Bismarck, and Minot.

Hospitals and health care centers in both non-metro and metro areas may consider forming cooperative alliances to share costs of expensive equipment, form rural emergency health care services, purchase supplies, train their physicians or nurses, and purchase health care insurance for members' employees. *The Forum* reported that (March 4, 1996) a few hospitals in North Dakota and Montana have agreed to purchase certain computer services jointly and exercised their joint purchasing power to reduce costs. Some health care facilities in North Dakota can also follow the example of the Hospital Coop Laundry of Denver, Colorado, which launders member hospitals' linen (Bhuyan, 1996).

Many non-profit organizations in North Dakota provide such services as fire fighting, emergency medical care, social work, or community development. There are over 8000 non-profit organizations in North Dakota as of September 1995 (Office of the Secretary of State, North Dakota). Most of these organizations are independent while the rest are local chapters of national organizations, e.g., American Red Cross. It is likely that many of these 8000-plus non-profit organizations in a sparsely populated state like North Dakota are providing duplicate services, so consolidation and merger may be in the future of many of these organizations, particularly those that are independent and small. Some of these organizations may continue to remain independent and operate at a lower cost by forming shared-services cooperatives to purchase equipment and supplies, to train volunteers and coordinators, or for any other common activities. Table 1 shows a list of some of the non-profit organizations operating in various communities in North Dakota as of 1995. Presence of more than one volunteer organization engaged in similar activities in a single county or in a group of adjacent counties raises the potential for cooperation.

Although it may seem that there is potential application for shared-services cooperatives in many service activities (and in retail trades), a more informal cooperation may be more appealing or feasible for many businesses or communities. This is because as formal business entities, shared-services cooperatives require all the necessary steps and procedures needed to establish and run a business. Moreover, effective cooperation requires a strong core of leadership, commonly shared goals among potential members, members' willingness to work together for mutual benefit, and support and participation of members.

Alternatives to Shared-services Cooperatives

There are less formal alternatives to shared-services cooperatives, such as contractual agreements and networking (Crooks *et al.*, 1995). Unlike shared-services cooperatives, these alternatives are not likely to be regulated and may not be subject to corporate income tax. In many cases, such agreements extend to providing such civic services such as police and fire protection, street repair and maintenance, garbage disposal, joint economic development efforts, and other similar activities. Hettinger city's agreements with the county government and several nearby towns to provide such services as police protection and garbage disposal are examples of such contractual agreements. The problem with a contractual agreement is its transient nature, i.e., when such contracts expire there is no guarantee that the joint action will continue. Because contractual agreements may not require significant commitment of resources, participants may not share similar goals, and their efforts may vary widely. However, establishing contractual agreements among public entities or private businesses may be a first step toward formation of shared-services cooperatives.

Another alternative to a shared-services cooperative is "networking," which is even less formal than a contractual agreement and is an ad hoc assembly of people or businesses of similar type. Public entities or businesses of similar type

can form networks to discuss their common problems and explore possible solutions. Such joint discussions may result in joint activities such as contractual agreements or shared-services cooperatives.

Conclusions

Shared-services cooperatives are non-agricultural and service-oriented business organizations established to solve such problems as unavailability and high cost of supplies and services. Shared-services cooperatives are commonly formed by private businesses as well as public entities, mostly at the county or town level. The Western Area Cities/Counties Cooperative or WACCO of Minnesota is an example of a successful shared-services cooperative formed by public entities. It allows member communities to share costly but under used equipment as well as public employee training and purchasing of supplies. Among private businesses, the KFC National Purchasing Cooperative, a purchasing cooperative of the KFC franchisees, is notable for reducing members' operating cost substantially.

Cooperatives can provide feasible solutions to some financial problems faced by both public sector and private sector entities, e.g., reducing costs of supplies and services. Thus, the potential pay-off of cooperatives may be considerable. The number of public entities, non-profit organizations, and some private businesses is relatively high in North Dakota given the state's small customer base (or population) in general and in its rural communities in particular. Declining population in most communities makes it difficult for most of these public and private organizations and businesses to provide or maintain services. Therefore, the need for cooperation in both public and private sectors in the state is apparent. There are already a few service-oriented non-agricultural cooperatives in North Dakota, most of which are associated with water or sewer services in rural areas. In addition, although limited to a few communities, there is cooperation among private citizens and among public entities in providing various civic services in the state. Although most of this on-going cooperation in North Dakota is informal, some of these communities may decide to form more formal shared-services cooperatives in the future. North Dakota residents have shown significant interest in capturing the benefits of value-added agricultural cooperatives as evident from the recent surge in the formation of agricultural processing cooperatives for durum wheat, milk, and corn (*The Forum*, June 25, 1995). Given the high spirit of cooperation in North Dakota and the potential benefits of shared-services cooperatives, formation of such cooperatives by public entities or private businesses in the state may not be far away.

Forming shared-services cooperatives can be a much more involved process than other alternatives, such as contractual agreements or networking. Those who are interested in details on the structure and organization of cooperatives should contact U.S. Department of Agriculture's Rural Business and Cooperative Development Services in Washington, D.C., at (202) 720-7558. Those looking for assistance on forming cooperative in North Dakota should contact the Cooperative Development Specialist, North Dakota Coordinating Council of Cooperatives at 1-800-234-0518, or the Business and Cooperative Development Specialist, Farm Service Agency at (701) 250-4438.

Table 1 : Examples of Non-profit Organizations in North Dakota, 1995

Type of Organization	Name of Organization	City, County
Public Safety	Antler Rural Fire Protection District	Antler, Bottineau
	Bowman Fire Department	Bowman, Bowman
	Concrete Volunteer Fire Department, Inc.	Concrete, Pembina
	Flaxton Fire Department	Flaxton, Burke
	Fort Ransom Rural Fire District Support Corporation	Fort Ransom, Ransom
Civic Services	Benson Rural Water Users Association	Minnewaukan, Benson
	Garrison Rural Water Association	Garrison, McLean
Community Development	Alsen Community Improvement Association, Inc.	Alsen, Cavalier
	Bowman County Development Corporation	Bowman, Bowman
	Braddock Community Development	Braddock, Emmons
	Center Economic Development, Inc.	Center, Oliver
	Dawson Area Development Association	Dawson, Kidder
	Edgeley Economic Development Corporation	Edgeley, LaMoure
	Enderlin Building Authority	Enderlin, Ransom
	Esmond Area Nonprofit Economic Development, Inc.	Esmond, Benson
	Fort Ransom Economic Development Authority	Fort Ransom, Ransom
	Glenburn Community Development Corporation, Inc.	Mohall, Renville
Social Services	Bottineau Food Pantry, Inc.	Bottineau, Bottineau
	Community Housing, Inc.	Grafton, Walsh
	Emmons County Community Service & Restitution Prog.	Linton, Emmons
Health Care	Adams County Health Coalition, Inc.	Reeder, Adams
	Aneta Nursing Home Inc.	Aneta, Nelson
	Burleigh-Morton Vol. Caregiver Exchange	Bismarck, Burleigh
	Community Hospital in Nelson County/Health Services Foundation	McVille, Nelson
	Dakota Health Systems	Fargo, Cass
	Dakota Hospital	Fargo, Cass

Data Source: Corporate Section, North Dakota Secretary of State's Office, Bismarck, ND.

This article explores potential applications for non-agricultural cooperatives that provide services that are absent or inadequate in rural communities in North Dakota. Such services may include civic services, e.g., public safety, or non-civic services, e.g., retail stores. Although the idea of cooperation is not new in North Dakota, the question raised here is whether there is scope for non-agricultural service oriented cooperatives in the state. More specifically, the question is whether there is potential for shared-services cooperatives, which are commonly formed by business groups or groups of public entities to provide products/services to its members at a lower cost. There is potential application for shared-services cooperatives in both public and private sectors in North Dakota based on opportunities to share fixed costs and to capitalize on pecuniary economies of size.

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