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Cooperative Competitiveness in the Next Decade

As the great philosopher -- Yogi Berra -- once said,
“The future ain’t what it used to be.” Yogi is also credited with the profound comment:
“Things are more like they are today than they have ever been before.”

To talk about competitiveness for the GROWMARK cooperative system, it’s important to look at the process that drives our decisions.

First, **we study** the always dynamic industry of agriculture and other social, political, and economic trends that may impact our business. This begins with four big-picture challenges for all of U.S. agriculture.

The National Council of Farmer Cooperatives defines these challenges as:

- Emerging competition
- The global purchasing power in U.S. dollars
- The Farm Bill’s shift to payments linked to production
- The maturation of food system consolidation

While these are all issues the GROWMARK System can not directly control, we can -- and do -- have influence.

To respond to production competition from South America, the enlargement of the European Union’s influence, and the subsidies the Chinese government is paying farmers, we have become more diligent than ever in attempts to build domestic demand for farm commodities. This includes, among other things, support of ethanol production facilities and the distribution of biodiesel to farm and commercial markets.

With regard to U.S. purchasing power, the strong dollar works against us in terms of production costs. We work to eliminate costs from farm production to make our farm customers more efficient and competitive.

Looking at government support of U.S. agriculture, linking payments with production is good for input suppliers such as GROWMARK because it generates demand for the products we sell. On the other hand, the maturation of food system consolidation brings incredibly intense competition for remaining farmers, suppliers, processors, and food retailers.

All of these issues apply pressure to our direction as an organization and serve to influence decisions. Lately, many of our decisions have related to growth -- which takes us to the second point in our process -- evaluation.

We evaluate new markets and opportunities against two non-negotiable criteria. First, is it in the best interest of core members -- providing an adequate return on investment? And second, can we enter such a venture while remaining a cooperative system where the ownership of the business is in the hands of the member-owners?

We also have the good fortune to build on a history of integrity, stability, wisdom, and commitment to cooperative principles and their benefits to members. We have more than 75 years of cooperative innovation in our past, a strong financial legacy, and a history of skilled leadership on the board of directors and in management. We are committed to all those things for the future.

Plus, we serve the changing needs of our member-owners and their farm customers by ensuring that there is expertise on the front lines and backup from the corporate office. The GROWMARK System places great significance on personal relationships.

As part of our process, we invest in the future. This includes technology and sound science, youth, the environment, and education for employees, boards, members.

And we listen. The unity and the strength of the GROWMARK System of cooperatives are built on inter-dependence through trust and communication.

GROWMARK actively plans for success. A strong and ever-evolving strategic planning process requires commitment and focus, but serves as the roadmap to success. For GROWMARK, it is a guide to achieving our vision "to be the best agricultural cooperative system in North America." What does that mean? It all comes back to improving the long-term profitability of member-owners through quality products, innovative services, professional people -- and economic return in the form of patronage refunds.

Ultimately, we act. Our strategic direction moves us toward achieving our vision -- and competitiveness for the 21st century. It involves the following strategies:

- ◆ We place top priority on fostering a strong, unified core local cooperative system. Our mission to improve the long-term profitability of our member-owners requires a real understanding of the issues our members face and demands that we develop effective solutions to their challenges. In today's climate of integration, especially within agriculture, cooperatives remain the farmer's one choice for investment that comes with the benefit of participation. Yes, co-ops are larger and more complex than they used to be -- but cooperative principles remain intact. And at the heart of those principles is democratic control. Members are elected by their peers to serve on boards of directors, making policy decisions that guide the organization. This isn't rhetoric. The role of the cooperative director today requires an intense commitment to education and proficiency in a wide array of business fundamentals. Successful cooperatives ensure that boards of directors are well equipped to handle their duties on behalf of the entire membership. I believe democratic, cooperative governance protects and promotes the independence of the farmer, while working in a collaborative environment. Cooperative governance structure is becoming a model for

corporate America -- especially in light of recent scandals involving CEOs and board chairman who did not have appropriate accountability to shareholders. This is a character issue -- and a structure issue. Cooperative boards of directors are elected by the membership and are working board members engaged in policy decision and oversight. Plus, the function of a cooperative is to benefit the membership, not a select group. Consequently, there is no incentive to engage in anything other than would you benefit the membership -- because that's where cooperative success is measured.

◆ GROWMARK also has a strategic initiative to grow and expand from our core businesses. We know what we do well -- and that remains a key to our success. The GROWMARK System is proactive and a leader in bringing new technologies and other sound science to our members and their customers -- and we have diversified operations. But at our core are the production and marketing of crops and livestock. It is from that base that we will grow.

One area of growth has come through a campaign called "Home Grown Fuels." GROWMARK has been involved in ethanol promotion and distribution for more than 20 years, and 70 percent of all gasolines sold through our system are ethanol-blended. Last year, we added soy-based biodiesel to the mix -- and the response by farm and commercial customers has been outstanding. Our member cooperatives sold more than 40 million gallons of a 2 percent biodiesel blend in 2002, and demand is growing steadily. Biodiesel improves air quality, lessens our dependence on foreign oil, and builds demand for farm commodities. Soy-based lubricants are part of our product mix now as well.

Other core growth has and will continue to come from market share expansion for the farm inputs we offer and the grain marketing services we provide. Market share growth results from a commitment to ever improved product offerings and innovative services delivered by professional people.

◆ Territory growth is a strategic goal as well. Our service area grew from one Midwest state starting in 1927 to three states in the '60s. We added member cooperatives in Ontario in the '90s. And in just the past few years we have added business in virtually all Midwest states -- and retail operations in seven Northeast states. Our vision statement communicates our intent to "be the best" in North America -- and that's what we consider our boundary.

◆ Another strategy is the creation and implementation of value-added products and services. The farmer, and those who partner with him, must have greater clout in the food and fiber industry. We have dedicated resources to help maximize farmers' clout through their cooperative system. This includes contracts for more than 3.5 million acres of specialty grains in the Midwest for 2003, assistance with identity-preserved requirements, risk management services, and activities to stimulate demand for farm products.

◆ In addition, we actively pursue alliances that are compatible with and supportive of our strategic direction. Such alliances can provide improved profitability and market growth with limited investment. We have a number of examples of such alliances working well for GROWMARK and its partners including -- a feed alliance with Land O'Lakes, a grain marketing arrangement with ADM, a financing venture with John Deere Credit, and a new venture with TruServ Canada to serve Ontario member cooperatives with consumer goods.

Combining professional, creative, talented people with quality products and innovative services that create strategic solutions for members' challenges is how we will remain competitive. I'm committed to never stop learning.

As Will Rogers once said: "It's not what you don't know that hurts you, it's what you think you know that you don't."

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Cooperative Competitiveness in the Next Decade

Dan Kelley
Chairman of the Board and
President,
GROWMARK, Inc.

GROWMARK®

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used to be.**

Yogi Berra

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GROWMARK®

Big Picture Challenges

- ❖ **Emerging competition**
- ❖ **Global purchasing power in U.S. dollars**
- ❖ **The Farm Bill's shift**
- ❖ **Maturation of food system consolidation**

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Farm programs change dynamics

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of integrity, stability,
and wisdom**

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We invest in the future

GROWMARK®

**To be the BEST
agricultural cooperative
System in North
America**

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**Strategy moves us
toward achieving our
vision**

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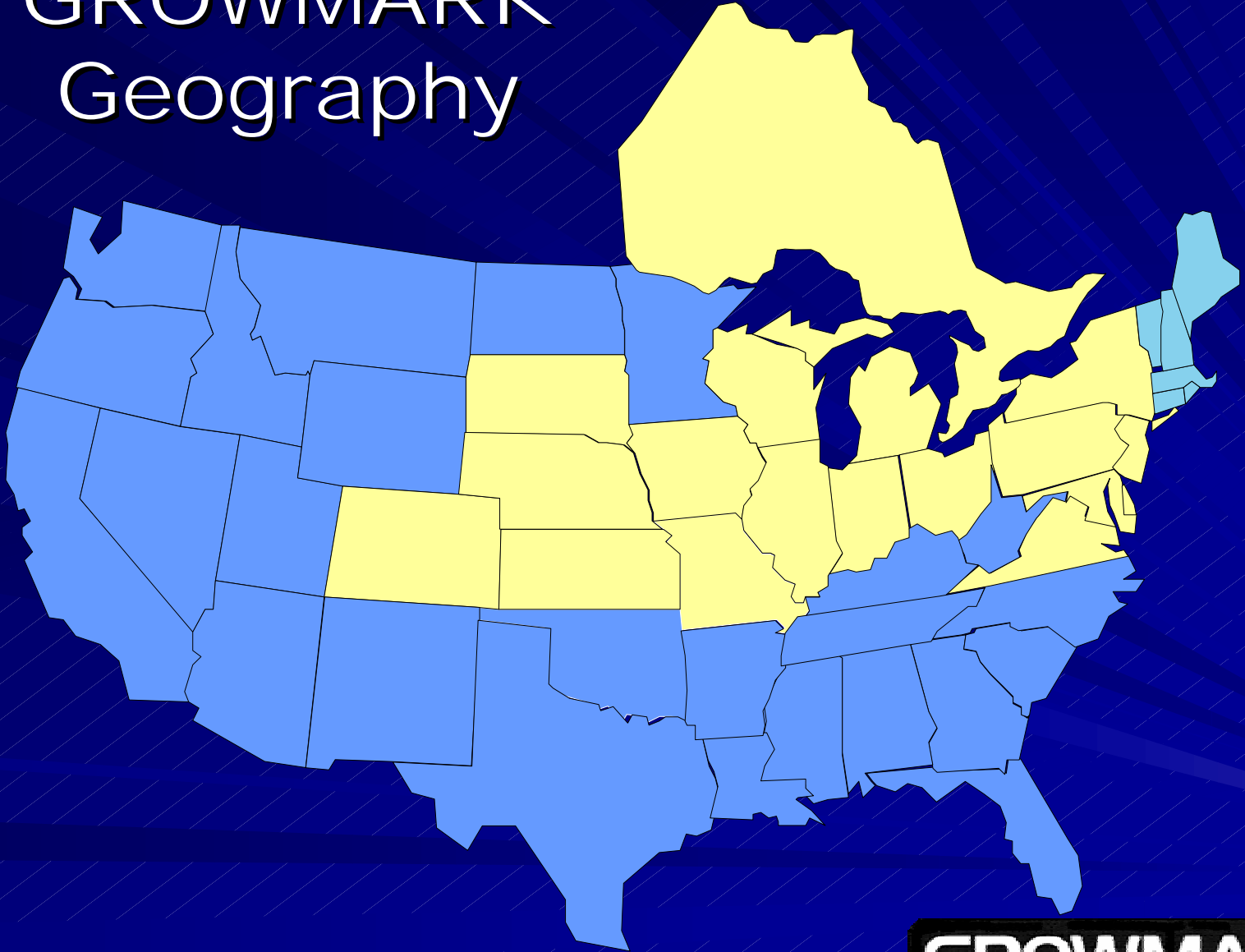
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