

Economic Impact Discussion Guide

II. Nebraska cooperatives are a significant factor in the agricultural industry and the economy of the state. Approximately 57 percent of the cash receipts from all grain and oilseeds in 2006 was cooperatively marketed based on statistics from RBCS and USDA's Nebraska Agricultural Statistics Service. (S 8.4a)

$$57\% = \frac{\text{Net Grain/Oilseed Cooperative Business Volume} = \$2,048,100,000 \\ \text{With a deduction of 2\% for margin}}{\text{Cash receipts for grains/oilseeds} = \$3,534,000,000}$$

Key Question: Why do you think grain/oilseed marketing cooperatives are so prevalent in the Nebraska economy?

Cooperatives accounted for 32% of the fertilizer marketed in 2006, based on statistics from RBCS and USDA's Nebraska Agricultural Statistics Service.

$$32\% = \frac{\text{Net Cooperative Fertilizer Business Volume} = \$212,730,000}{\text{Farm Production Expenses for Fertilizer} = \$660,000,000}$$

Key Question: Is there a relationship between the number of grain/oilseed marketing cooperatives and supply cooperatives in the Nebraska economy?
What is it?

Other types of cooperatives throughout the United States market dry edible beans and peas, fruits and vegetables, cotton, sugar, livestock, nuts, poultry, rice, tobacco, wool and mohair. Supply cooperatives also provide agricultural chemicals, building supplies, packaging supplies, farm machinery and equipment, animal health products, automotive supplies, food, and hardware. Service cooperatives also provide housing, insurance, consumer goods, communications, and health care.

Key Question: Do any of these cooperatives operate in Nebraska? Are there opportunities for them in the Nebraska economy? If so, which one(s) and why?

In addition to the local cooperatives in many Nebraska communities, regional cooperatives also operate in Nebraska. They provide farm supplies at wholesale to local cooperatives, marketing and processing opportunities for crop and livestock production, services to local cooperatives and direct to owner-users, and other functions. Federated regional cooperatives are owned by the

local cooperatives to which they provide services and/or farm supplies and marketing opportunities. Centralized regional cooperatives are owned directly by producers or their customers, while still other regional cooperatives are owned by a combination of individual customers and local cooperatives.

Regional cooperatives operating in Nebraska include:

- CHS, Inc.
- Land O'Lakes, Inc.
- CoBank
- Ag Processing, Inc.
- Affiliated Foods Cooperative, Inc.
- Associated Milk Producers, Inc.
- Dairy Farmers of America, Inc.
- Producers Livestock Marketing Association
- Nebraska Rural Radio Association (KRVN/KNEB/KTIC)
- Farm Credit Services of America
- Cooperative Mutual Insurance Company
- Associated Benefits Corporation
- Growmark, Inc.
- Four Points Federal Credit Union
- United Suppliers, Inc.
- Winfield Solutions, a division of LOL

III. In 2006, Nebraska ranked 7th in the amount of cooperative business volume when compared with other states. (S 8.4b) Those states ranking ahead of Nebraska (in order of rank) were Minnesota, Iowa, Wisconsin, California, Illinois, and Kansas. Closely following Nebraska in top ten order were Missouri, North Dakota, and Texas.

Key Question: Why are Minnesota, Iowa, Wisconsin and California the leading states in cooperative business volume?

IV. When discussing the economic impact cooperatives provide in a local community, it is necessary to discuss both the long- and short-term impact. (S 8.5) In the short term, cooperatives inject money in the local economy through salaries, property taxes, utilities, insurance and maintenance needs.

The degree to which these short-term expenditures impact the local economy depends on the self contained nature of the community in which the cooperative is located. If the community is of sufficient size to service the maintenance needs of the businesses, including the cooperative, then the impact is greater than if the cooperative has to look outside the community for those needs. The same can be said about the impact the cooperative's payroll has on the community and its ability to provide housing, food, clothing, and other services to employees. Often, the impact of expenditures for taxes, utilities, and insurance are viewed regionally rather than locally.

Cooperatives may also provide cash patronage dividends to their members depending on the level of business they conduct with the cooperative. These dividends are a potential source of

capital injected into the local economy, but its realization depends on the spending habits of the members and the self contained nature of the community.

Local ownership and control of cooperatives is an important aspect to the discussion of their long-term economic impact on the local community. This cooperative principle, in most cases, also contributes to greater stability and dependability not only in the business, but in the local economy. There is less chance that decisions in some distant corporate office will drastically impact the business and in turn the local community. This strength further expresses itself in the business activity member patrons perform in other community businesses while engaging the services of their cooperative.

(Please refer to Units 2 and 5 for additional information.)

So, what is the dollar amount of impact a cooperative exerts in a local community? The source of revenue from which the cooperative pays its cost of doing business comes from the charges it places on the products and services it provides. In other words, in return for the service of receiving, storing, and handling grain, a grain marketing cooperative charges the producer a fee. It is from these service fees and the mark up on products sold (commonly called business margin and/or mark up) that the business pays its expenses. It is also from these "sales" that a basis for determining the short-term economic impact of the business on the community can be determined.

The Bureau of Business Research at the University of Nebraska-Lincoln estimates that for every \$1 of sales generated by a local community business, approximately \$1.60 is contributed to the local economy through payment for its cost of doing business. This contribution will vary from \$1.30 to \$1.90 or more, depending on the community in which the business operates. For example, if a cooperative had an average sales margin of 15 percent and experienced \$150 million of gross sales in an operating year, its gross margin would be \$22.5 million, or an injection of \$36 million into the local economy. (S 8.6a and 8.6b)

Key Question: What is the economic impact of local cooperative(s) on our local economy?

Suggested Activities: Obtain a copy of the most recent annual report of your local cooperative and figure its economic impact using the figures of the Bureau of Business Research.

Invite the local cooperative manager to your class as a guest speaker on the topic of the economic benefits his/her cooperative provides to the community.

V. In addition to the economic impact a cooperative has on the community, there are other less tangible benefits that cooperatives offer. Some flow to members while others are realized by the entire community. (S 8.7a and 8.7b)

A basic objective of cooperatives is to service the needs of their members. Sometimes this means

foregoing larger net profits in return for the good of members. Examples are services available in rural areas as from rural electric cooperatives and artificial insemination associations. Another example exists in availability of supplies for members' use that provide them the best value rather than achieving maximum profits for the cooperative. Supply cooperatives rely heavily on non-biased information from state research stations when making product recommendations to accomplish this service. Therefore, cooperatives also are a comparatively dependable source of reasonably-priced supplies to members, especially in times of shortage or emergency.

On a more personal basis, progressive cooperatives offer their members information that can improve the management of their farming operations. Advice from trained professionals on seeds, pesticides, fertilizers, and other production supplies is a valuable benefit for production management decisions. With the present and future emphasis on environmental considerations in farming, this service will become increasingly important.

Cooperative organizations also support legislation which is beneficial to business and agriculture. The efforts of organizations such as state cooperative councils and the National Council of Farmer Cooperatives provide members an efficient channel through which to express their view points to influence state legislatures and the national Congress. Leadership experience and training obtained in the legislative process, as well as service on the local cooperative's board of directors, provides members a valuable benefit of greater self confidence in all aspects of their lives.

In a larger perspective, cooperatives lead to stronger rural communities. They provide stable sources of both permanent and temporary employment; leadership resources for community projects and organizations; valuable services to non-member residents; and, indirectly through benefits realized by the members, a contribution toward lower food costs.

Key Question: What would our community be like without our local cooperative?

Suggested Activities: Divide class members into small discussion groups to answer the preceding key question. (HO 8.1)

It may be appropriate at this time to conduct a tour of the facilities of the local cooperative(s) to acquaint students with services. It will help them more effectively understand cooperatives.

Invite a community representative (mayor, business person, etc.), preferably a non-member of the cooperative to discuss with the class the benefits of the cooperative to the community.

What Would Our Community Be Like Without Our Local Cooperative(s)

In class you've discussed the benefits that cooperatives provide both members and non-members. Now, imagine what your community would be like if all your local cooperatives ceased to exist. The following questions will lead you through the activity.

1. What are the cooperatives in our community?
2. What services would be affected if they ceased to exist? Where would these lost services be obtained? How would this affect our community?
3. What information sources would be lost? Could others be found? How would this affect citizens of our community?
4. How would the loss of our cooperatives affect the leadership environment of the community? Would you lose opportunities for leadership development? What would they be?
5. How would community employment be affected by the loss of our cooperatives? How would this change our community besides the obvious loss of jobs?
6. Which of the preceding losses would have the biggest impact on our community? Be prepared to support your opinion.