

Strategies to Revitalize Rural America

Strategy #6: Regional Cooperative

A New Kind of Regional Cooperative

A new kind of regional cooperative could be a powerful force for revitalizing family farms and ranches.

Such a cooperative could capture high-value “niche” markets for family farmers and ranchers, bargain collectively on their behalf, provide technical assistance in meeting quality and production standards, and provide capital for new farmers and ranchers to serve these markets.

The Mondragon cooperative in Spain demonstrates the potential of a cooperative to create genuine opportunity in a depressed region.¹ It was established in 1956 by five engineers inspired by the ideas of a Catholic priest about creating a business model responsive to the needs of working people and communities. The cooperative has created 30,000 jobs in 67 enterprises, each owned by its employees in the economically depressed Basque region of Spain.

Mondragon is a worker-owned industrial cooperative – not a family farmer-owned cooperative. In spite of that difference, it offers some useful insights that can be applied by family farmers and ranchers.

Cooperatives can be effective instruments for social change if they have a clear sense of purpose and remain true to it. Mondragon began with a commitment to building a worker-owned and -controlled company dedicated to the well being of its members and their communities.

A new farm cooperative with a commitment to strengthening owner-operated family farms and ranches and their communities could be a powerful force in creating a better rural future.

Cooperatives can be engines of development. The Mondragon cooperative works as an umbrella. It spurs formation of new member cooperatives – each with no more than 500 employees – and services them.

A regional family farm and ranch cooperative could spur formation of smaller cooperatives, each focused on helping family farmers and ranchers secure a particular market. Equally important, it could assist new family farmers and ranchers by linking them to markets, capital, and technical assistance.

Cooperatives can be most effective when they bring together an array of services. Mondragon has its own bank that lends to the cooperative enterprises under its umbrella, runs its own research and development arm, and operates its own university for training cooperative managers. A regional cooperative could be a one-stop shop for family farmers and ranchers to enter premium markets.

The Need for a New Cooperative

Great opportunity for family farms and ranchers waits in high-value markets – but that opportunity is at risk of being lost.

The nationwide Hartman Survey of American consumers found that about half would pay a premium for food produced in ways they support – particularly food produced in an environmentally responsible manner.

About two-thirds of participants in a Better Homes and Gardens consumer panel said they would pay a premium for pork raised on a small farm, on an environmentally responsible farm, or humanely. Others will pay a premium for antibiotic-free meat or products with unique flavor or other special attributes.

But family farmers and ranchers who want to enter special markets with premium prices – sometimes called niche markets – often find it very difficult. They frequently must develop their own marketing channels from scratch and must also develop new production methods. Those just starting have to line up capital. It's much harder than walking into the office of a corporate integrator and signing up as a contract producer.

A cooperative could make it more feasible for family farmers to enter high-value markets and, in the process, capture this opportunity for them. If family farms and ranches don't capture it quickly, it may be lost to corporate farms. They have taken note of organic, natural, and other niche markets and responded.

Corporate farms are attractive suppliers to food companies wanting to put natural and other specialty products on supermarket shelves. It is cheaper and easier to go to one large corporate supplier for raw farm products than to find hundreds or thousands of small farmers who can certify that they meet quality and production standards and provide a steady and adequate supply when it's needed.

But a cooperative that markets for many family farmers and ranchers would have those advantages and more. Like a large corporate farm, a family farm cooperative could offer food companies a guaranteed and steady supply of farm products that meet niche market standards in one stop.

That would make it far easier for food companies to develop products to serve niche markets, encourage more of them to enter, and in turn create more opportunities for family farmers to sell in these markets.

Securing raw farm products from a family farm cooperative would give food companies an added advantage with consumers who want to vote for what they believe in with their food dollars. They could say their food was raised on a small family farm – something many consumers would like to support.

For example, there could be a significant market advantage for a cooperative selling high-

quality meat, certified as raised on small family farms and ranches without hormones or feed antibiotics, and meeting objective standards for stewardship of the environment and humane treatment of animals.

The cooperative with the ability to provide a steady supply of products offering that market edge would be able to secure a significant premium for its members.

What Services Should Such a Cooperative Provide?

A cooperative could help family farmers and ranches secure premium markets without raising large amounts of capital to build or purchase processing facilities or even a brand name. The key would be offering a core set of strategic services.

First, the cooperative would need to provide marketing and collective bargaining services. It would be the vehicle for family farmers and ranchers to collectively market products that meet specific standards – for taste, quality, and for the way they were produced. By pooling a steady supply of production from many farmers, the cooperative could gain the economic power to secure markets and negotiate good prices.

The cooperative could go the full step of selling its own branded products to retail stores. Or, it could take the less expensive and less risky approach of selling livestock or crops that meet exacting standards to food companies already familiar with branding products and getting them on supermarket shelves. Cooperative members would receive a premium because their production methods increase the price the food company could charge for its product.

Second, the cooperative could provide technical assistance on niche market production. Niche markets offer premiums because producing for them requires specialized knowledge and, generally, more intensive management. It is not practical for every family farmer to search out that knowledge and develop those skills from scratch. A cooperative could help by providing information and technical assistance.

Third, the cooperative could help link new producers to capital. For example, it might link beginning farmers who want to produce for a niche market with supportive land owners willing to rent to them. It might link beginning farmers and ranchers with socially motivated investors who would buy breeding stock and lease it to them in return for a percentage of production. Or it might find socially motivated investors willing to make loans to beginning farmers in return for a federal income tax break.

Finally, the cooperative could have market research staff to search out new premium markets family farmers and ranchers could serve. As potential new markets are identified, the cooperative could organize interested producers and work with them to develop and capture that market. For example, a cooperative with roots as a livestock cooperative might also discover an opportunity in organic medicinal herbs and help a new group of family farmers capture that market.

A New Model for the 21st Century

The opportunities for family farmers and ranchers in producing undifferentiated commodities are declining. But new opportunities exist in niche markets. To capture them, family farmer and ranchers need a new type of cooperative.

¹ The discussion of Mondragon draws on the book, *From Mondragon to America: Experiments in Community and Economic Development*, by Greg MacLeod. For more information on the Mondragon cooperative, visit their website at <http://www.modragon.mcc.es>