

Dr. Keri L. Jacobs

MFA Chair in Agribusiness &
Executive Director, Graduate
Institute of Cooperative
Leadership



U.S. Agricultural Cooperative Governance and Capital Structures

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2023

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Trends in U.S. Agricultural Cooperatives

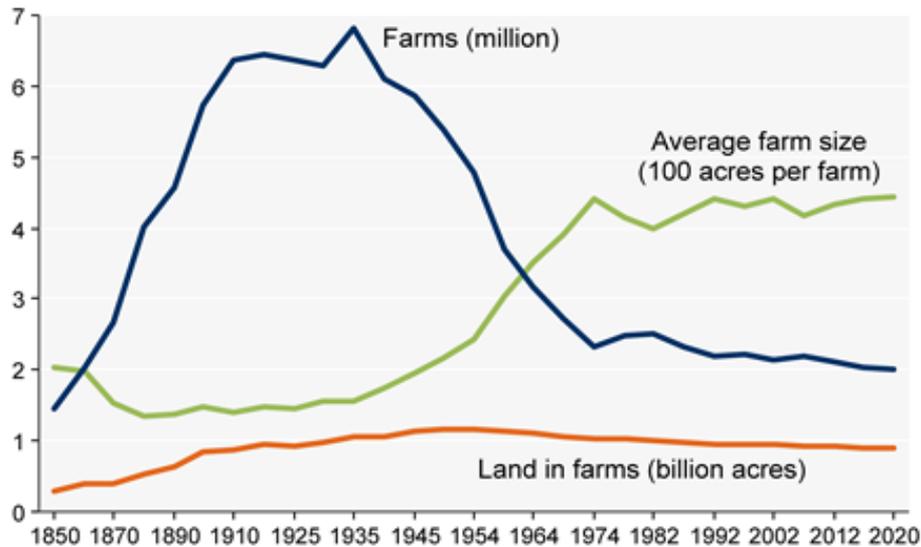
1. National Demographics
2. Governance
3. Capital Structure /
Financing
4. Emerging Solutions



Farm-level consolidation and productivity means sustained growth in agricultural outputs on fewer farms

Farms, land in farms, and average acres per farm, 1850-2020

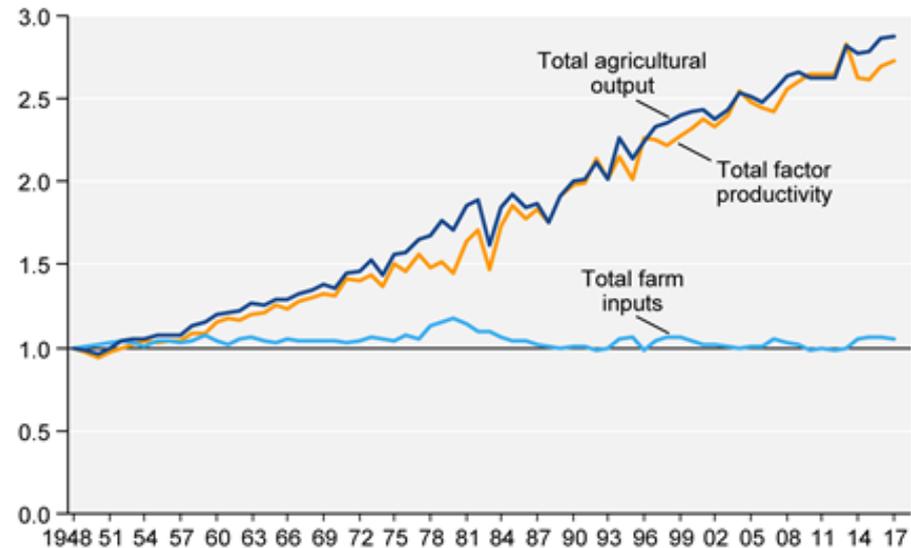
Million farms, billion acres, or 100 acres per farm



Source: USDA, Economic Research Service using data from USDA, National Agricultural Statistics Service, Census of Agriculture (through 2017) and *Farms and Land in Farms: 2020 Summary* (February 2021).

U.S. agricultural output, inputs, and total factor productivity

Index, 1948=1

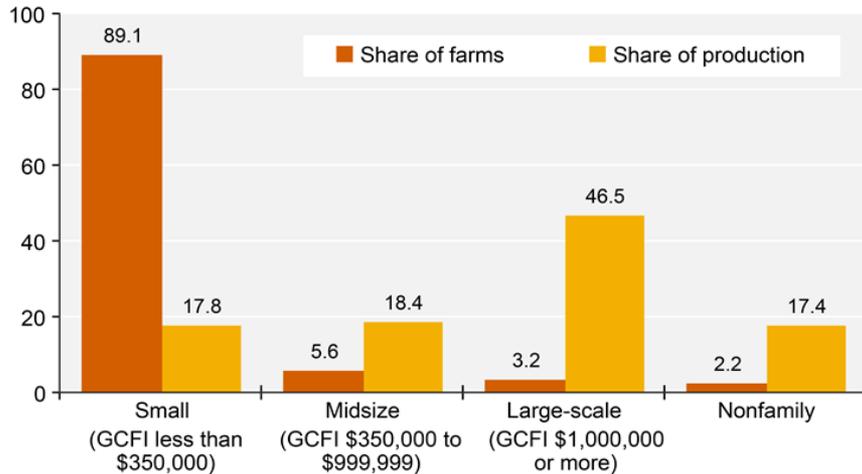


Source: USDA, Economic Research Service, *Agricultural Productivity in the U.S.* data series. Data as of January 2020.

Family farms are still the norm. Among those, the largest 3.2% account for 46.5% of total production.

Farms and their value of production by farm type, 2021

Percent of U.S. farms or production

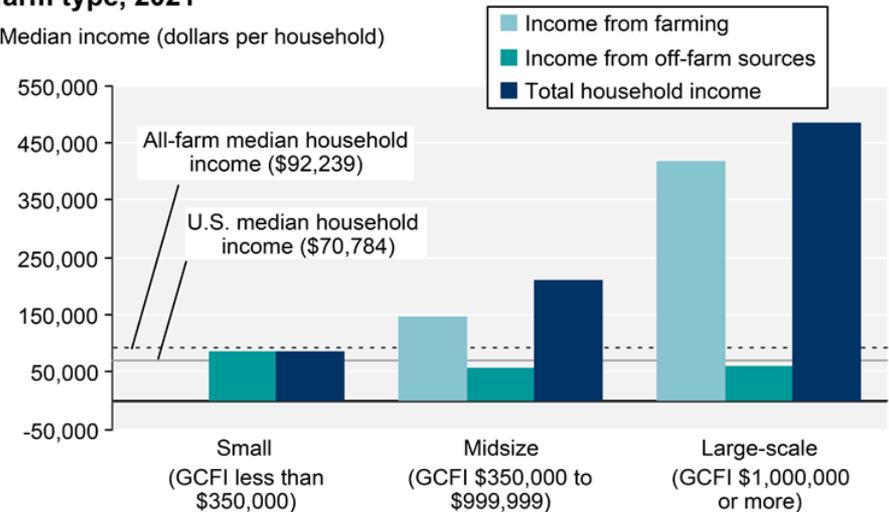


GCFI = annual gross cash farm income before expenses.

Note: Nonfamily farms are those where the majority of the operation is not owned by an operator and their relatives. Components may not sum to 100 percent because of rounding. Source: USDA, Economic Research Service and USDA, National Agricultural Statistics Service, Agricultural Resource Management Survey. Data as of December 1, 2022.

Median income of farm households, by income source and farm type, 2021

Median income (dollars per household)



Note: Farm type reflects annual gross cash farm income (GCFI) which includes sales of crops and livestock, Government payments, and other farm-related income (including fees received by operators from production contracts). Sources: USDA, Economic Research Service and USDA, National Agricultural Statistics Service, Agricultural Resource Management Survey and U.S. Department of Commerce, Bureau of the Census, Current Population Reports (p60-276). Data as of December 1, 2022.

Historical Ag Cooperative Membership

Number of Ag Co-op Memberships, 1915-2021

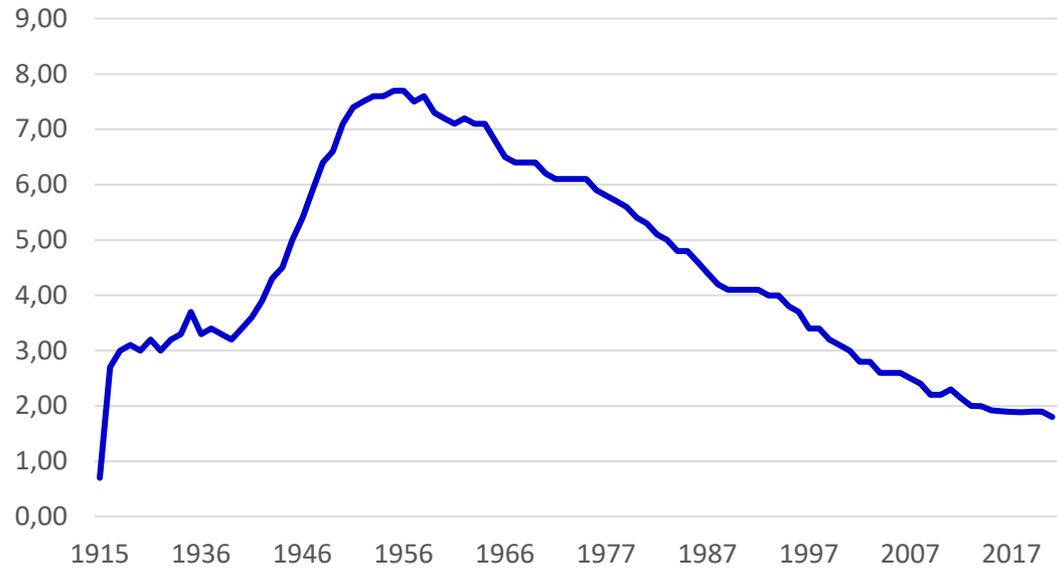
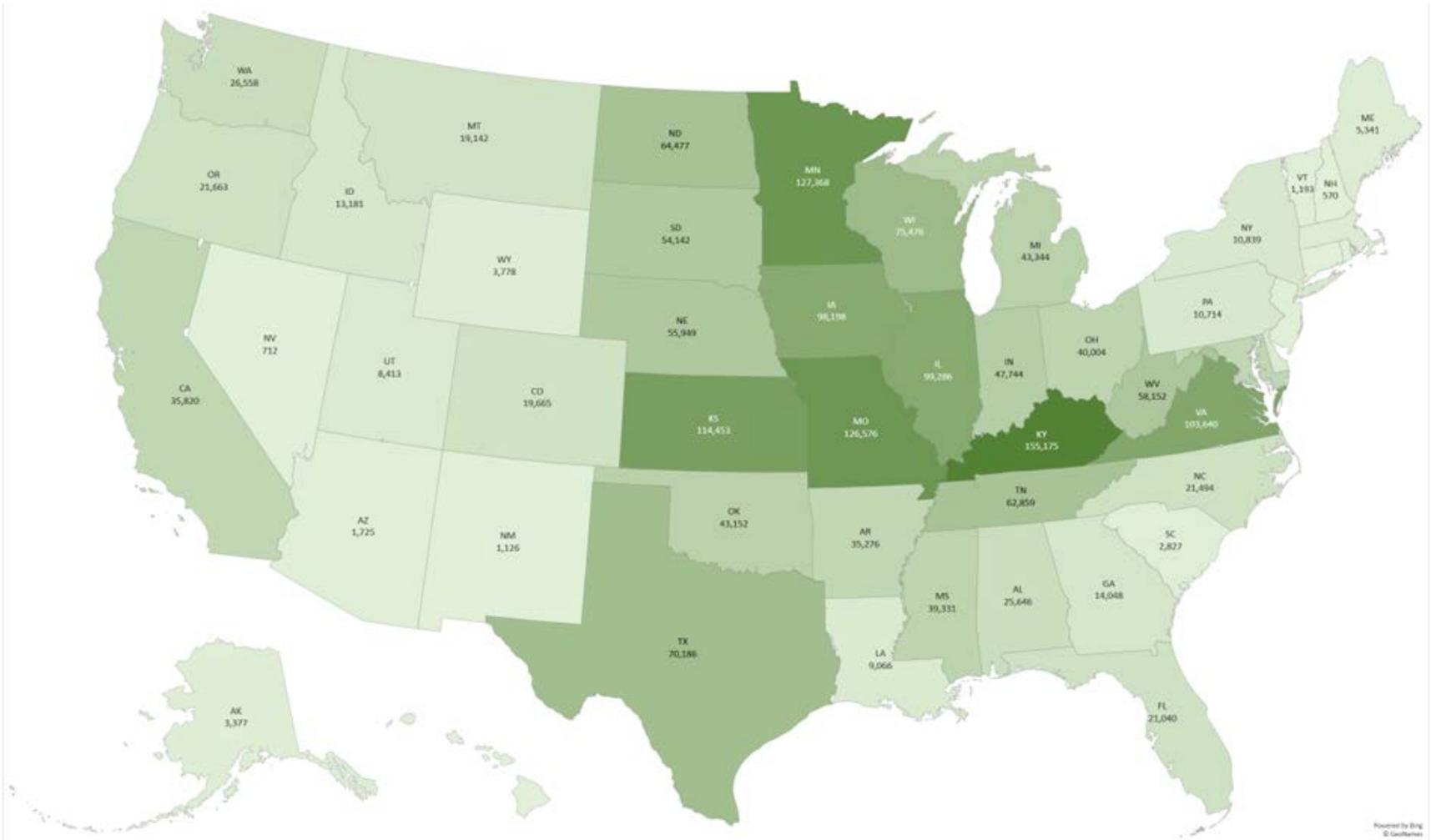


Figure 2 - Memberships of U.S. ag c-ops, 2012-2021



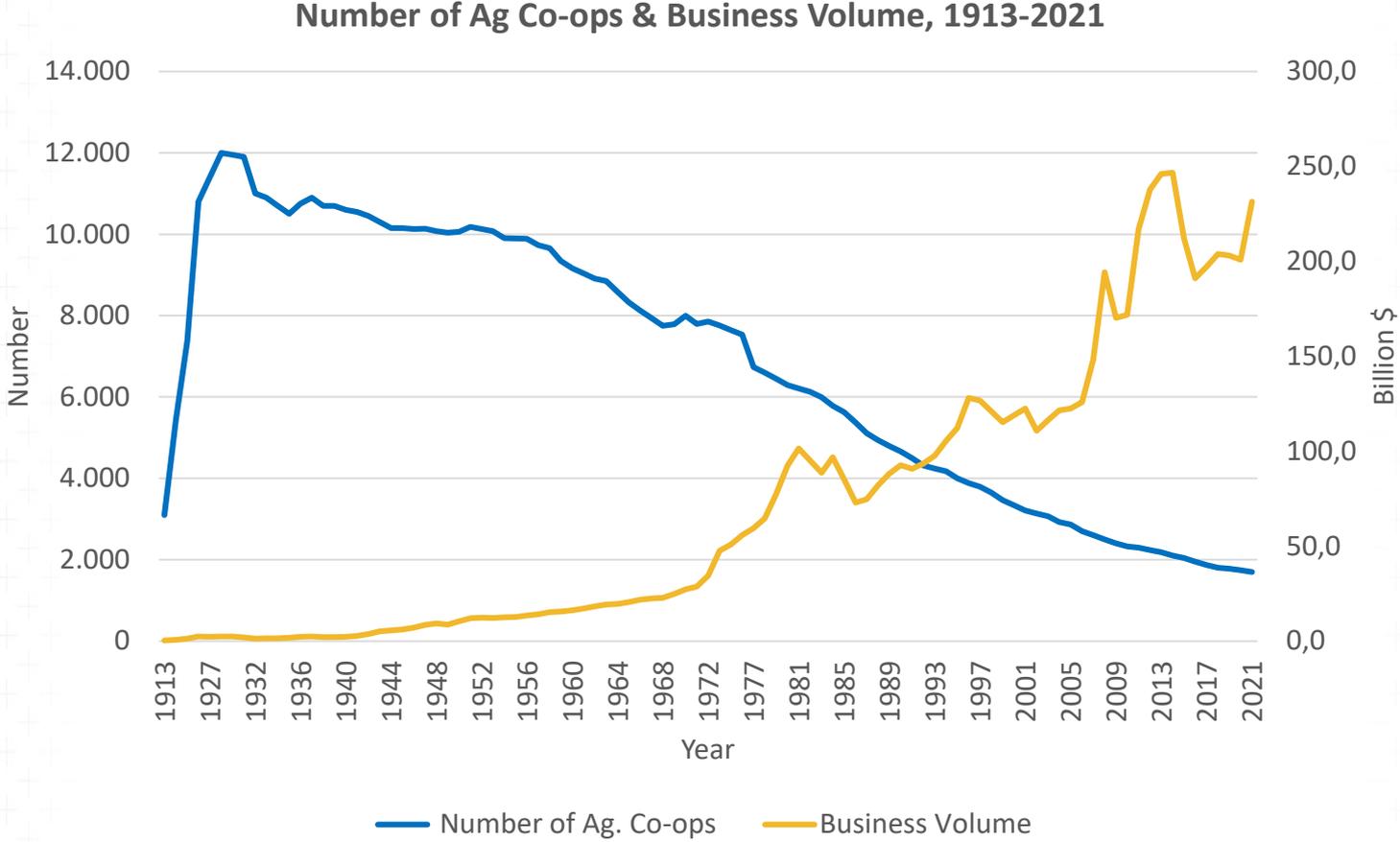
Source: USDA's Annual Survey of Agricultural Cooperatives

Cooperative Memberships by State, 2021



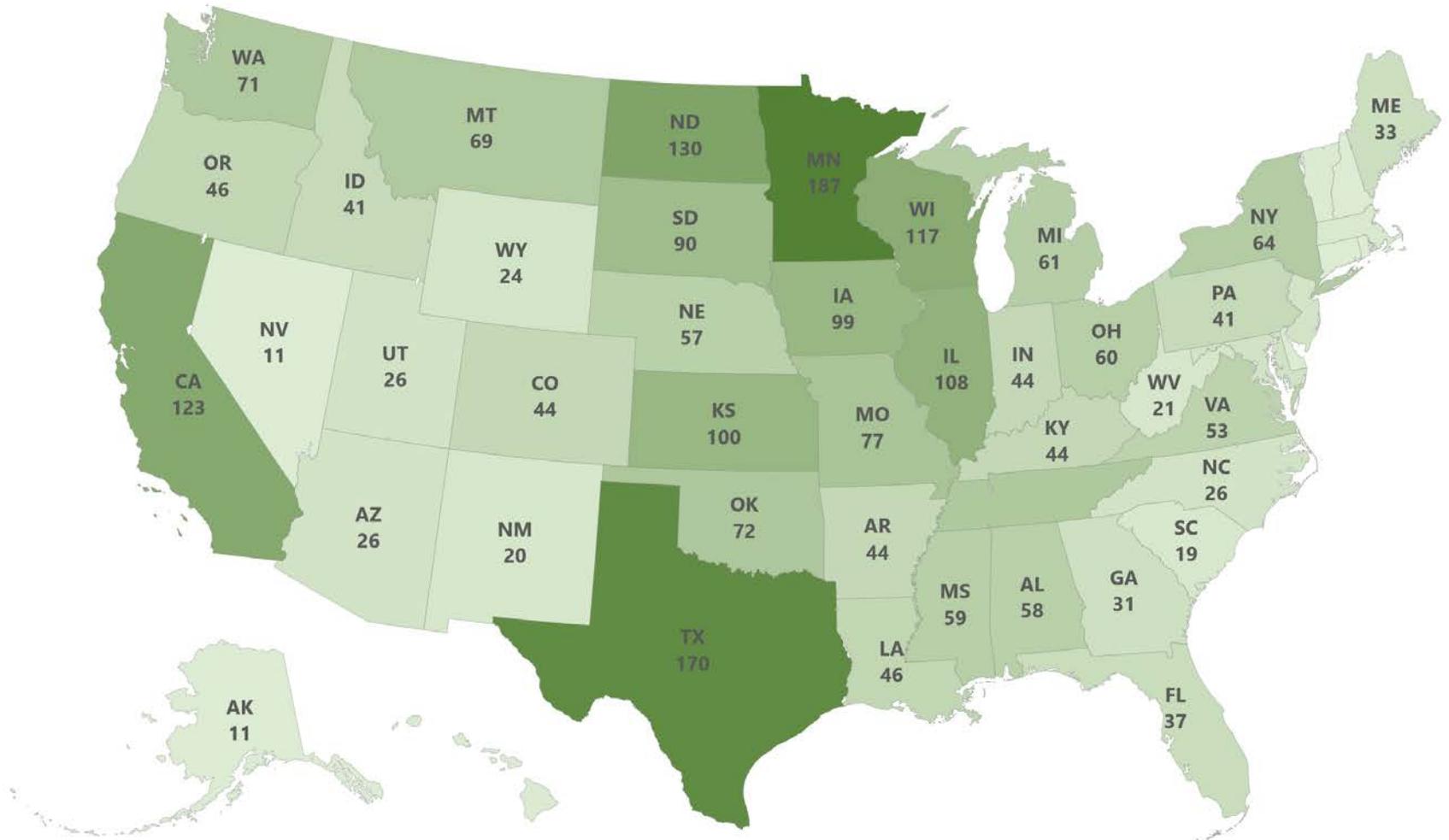
Source: USDA's Annual Survey of Agricultural Cooperatives

In 2021, **94.6% are primary cooperatives**, 1.6% secondary, and the remainder are mixed (hybrid).



Source: USDA's Annual Survey of Agricultural Cooperatives

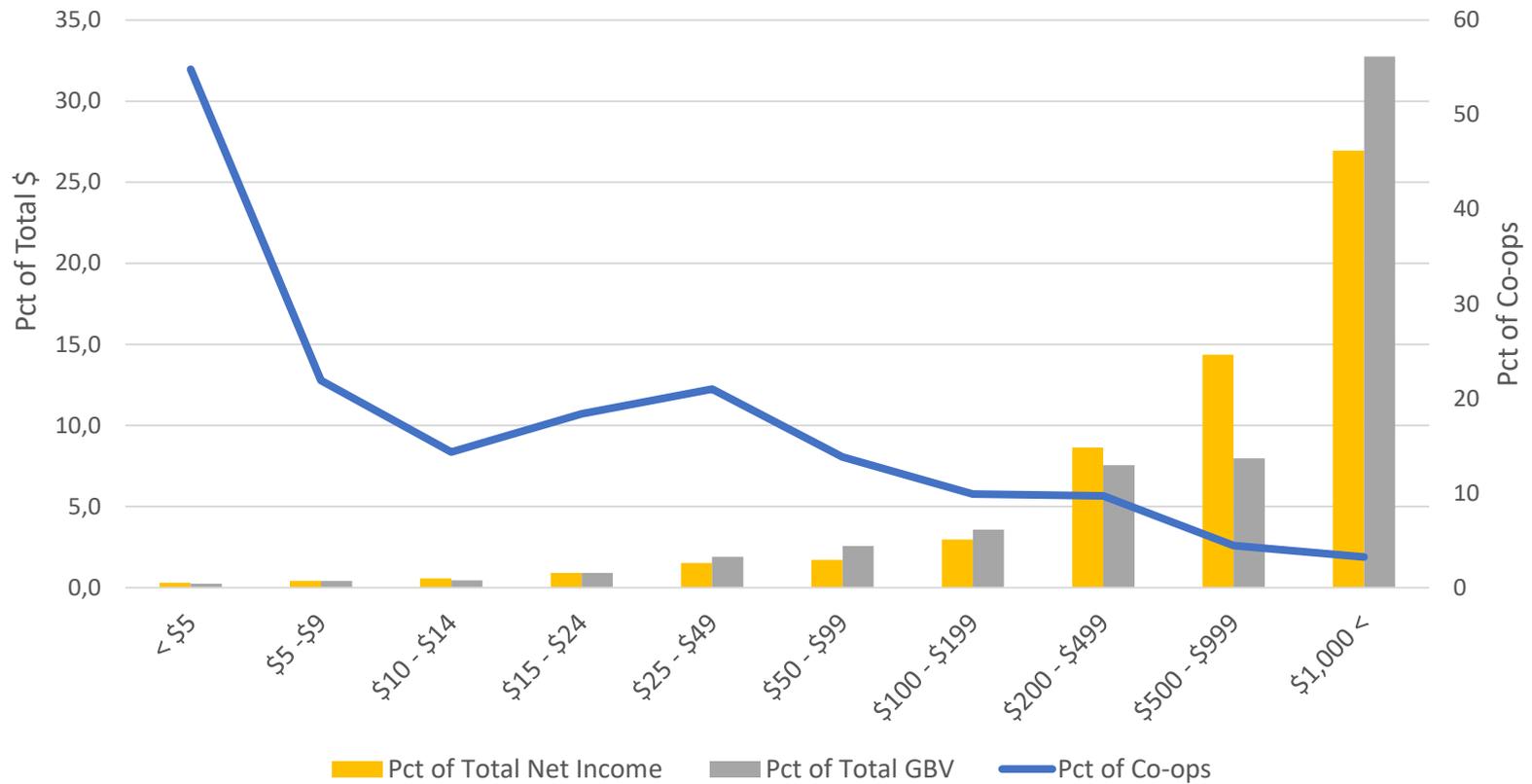
Number of Cooperatives Conducting Business by State, 2021



Source: USDA's Annual Survey of Agricultural Cooperatives

In 2021, 32 cooperatives posted more than \$1 billion in revenue.

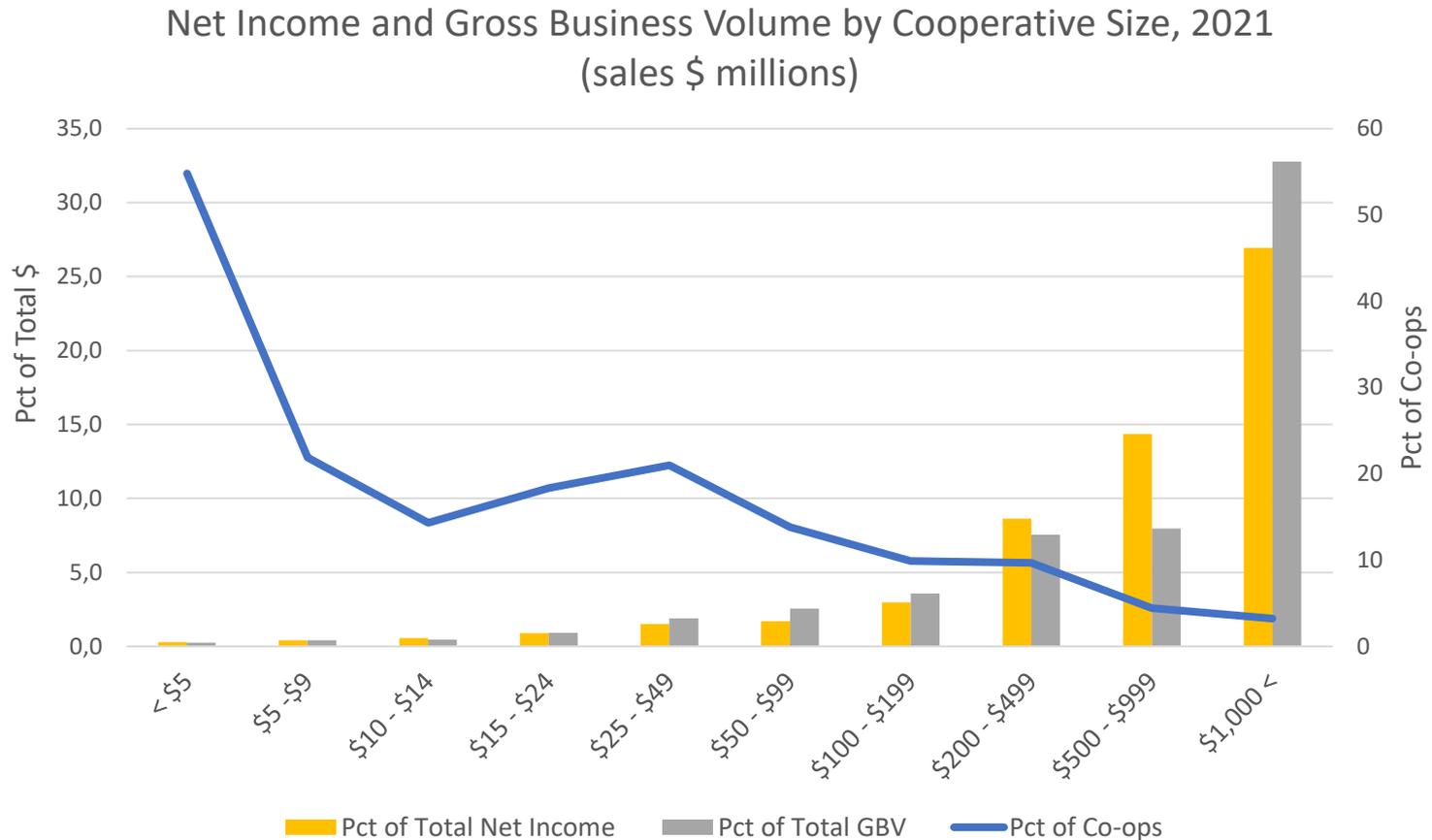
Net Income and Gross Business Volume by Cooperative Size
(Sales \$ millions)



Competition Among Cooperatives

While not new, increasingly there are competitive tensions...

- among very large primary cooperatives ("super locals")
- between primary cooperative members of hybrids that operate nearby competitive locations



Governance

Emerging governance needs driven by increased **complexity** in ag cooperatives' **decision-making**, **planning**, and the **member-value proposition**.



Board Structure and Authority

Particularly among secondary and large primary cooperatives (“super locals”), we see:

- Focus on implementing robust **board assessment processes**, including formalizing director performance expectations and improving board culture and accountability,
- Updating **bylaws** and **board policies**
 - Representation factors and allocations among membership
 - Updating the delegate structure to enhance communications and involvement in governance
 - Permit non-producer (outside) voting and non-voting directors/advisors
 - Formalize board committees and authorities





UWCC Study on Board Practices

- Overall, board sizes are shrinking, reportedly to achieve efficiencies of a smaller board.
- Those that increase size do so because of merger (short-term increase) or to better represent a spatially diverse membership.

Board Size

	N	Min	Mean	Max	Outside Director
Primary	56	4	10.3	30	29.1%
Hybrid	8	6	16	28	37.5%

BOARD SIZE CHANGES

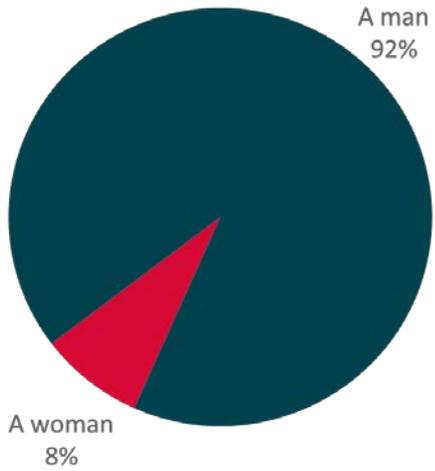
	Primary	Hybrid	Total
Decreased	1	17	18
Increased	1	5	6
Same	6	33	39



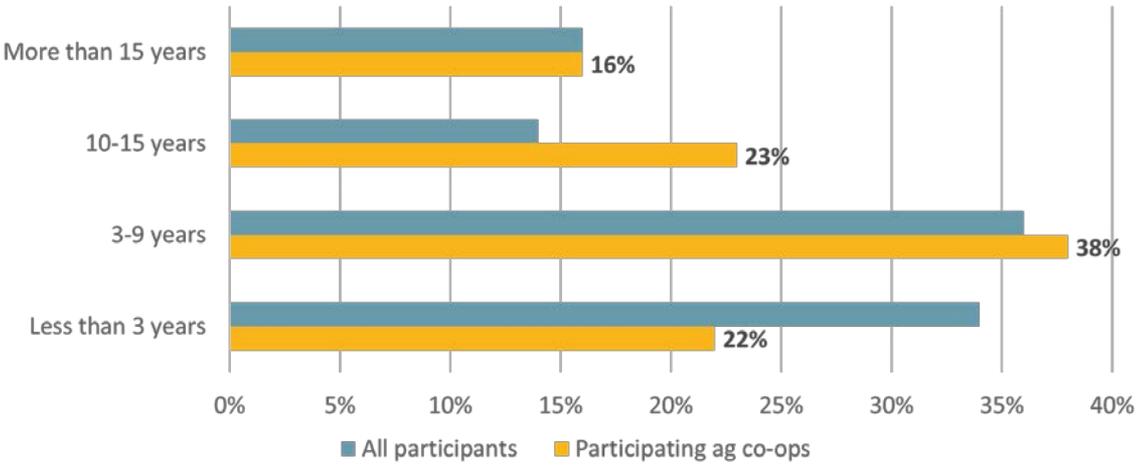
UWCC Study on Board Practices

- Board demographics, including diversity, is being looked at carefully.
- A recent 'wave' of director turnover, due to age or term limits, is generating questions about preserving institutional knowledge, ability to recruit new directors, and director development.

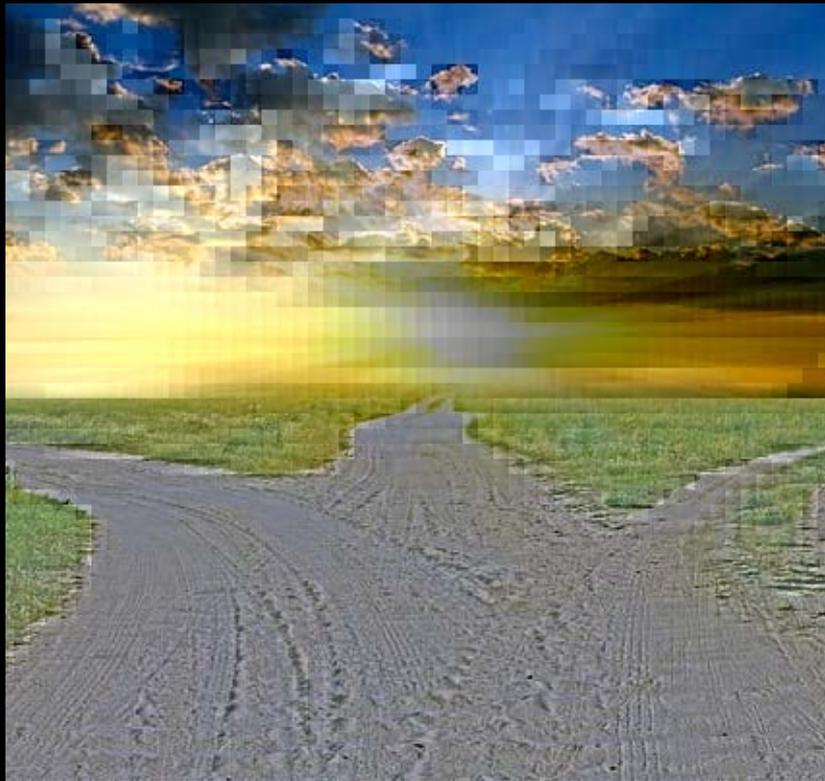
On average, share of participating ag co-ops boards whose directors identify as ...



On average, share of participating cooperative boards whose directors have served ...



Board's Role in Strategy

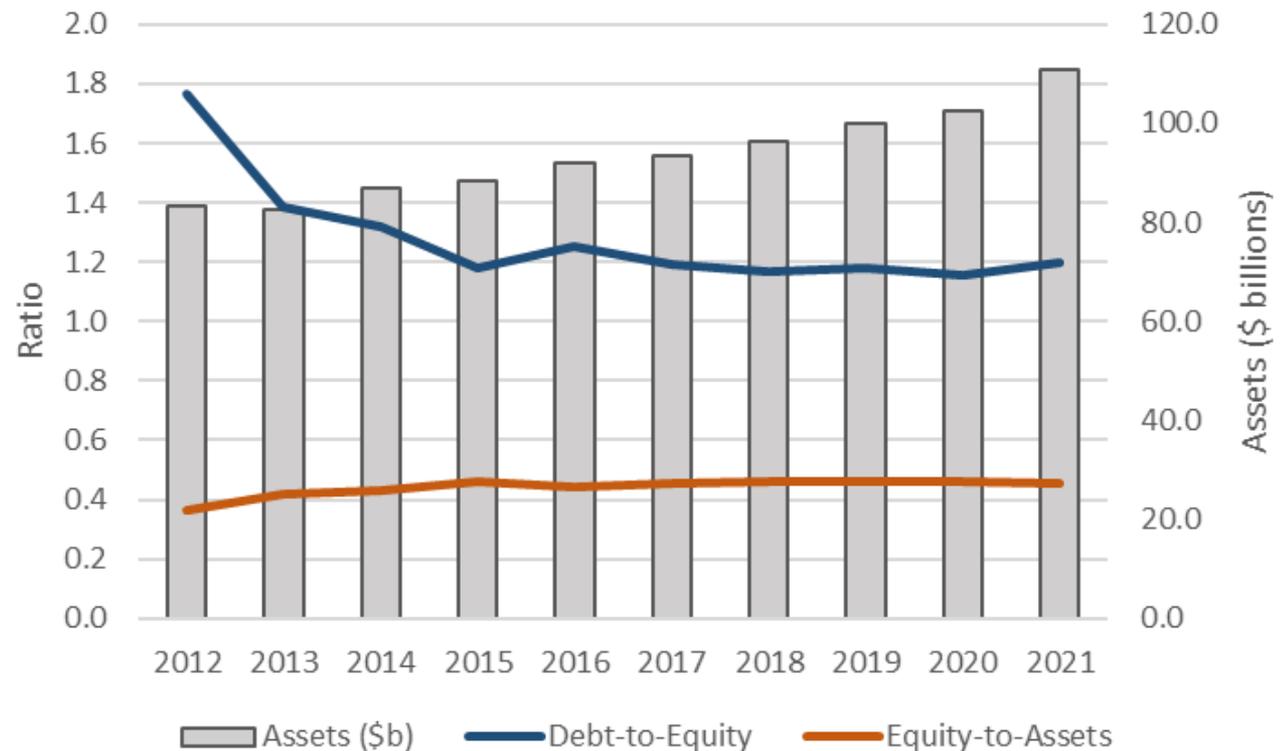


Increasingly, it is recognized that the **board's role** in strategy development is to focus on **direction setting** and corporate **strategic intent**.

- Focus is on identifying what members **value** from the co-op, how **success** will be measured, and the co-op's **growth** pathway.
- Key drivers of this are cooperative size and complexity, supply chain complexity, rapid changes in operations, and evolving (increasing) heterogeneity of membership.



Capital Structure & Financing

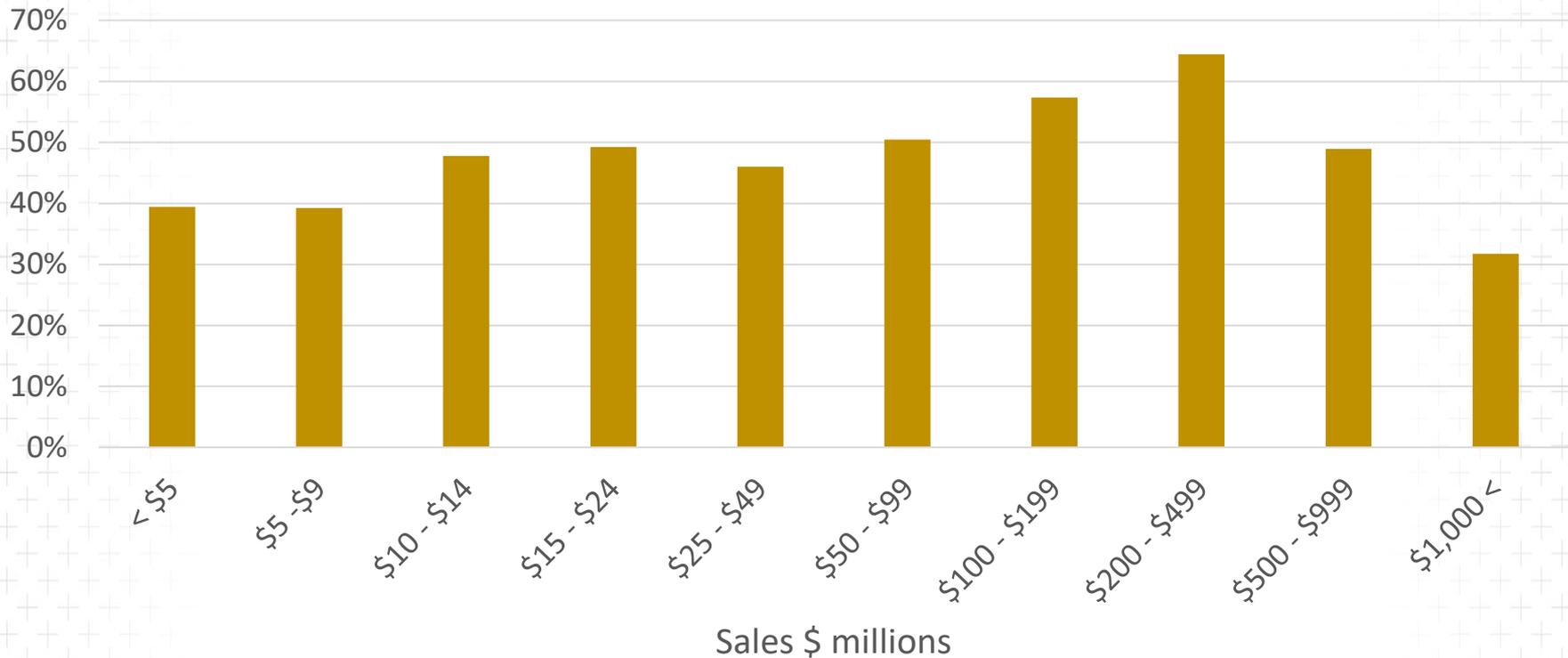


- Relatively low reliance on debt financing coupled with low interest rates have helped to manage interest expense.
- Historically remarkable increase in total equity, a 33% increase in 10 yrs.

Source: USDA's Annual Survey of Agricultural Cooperatives

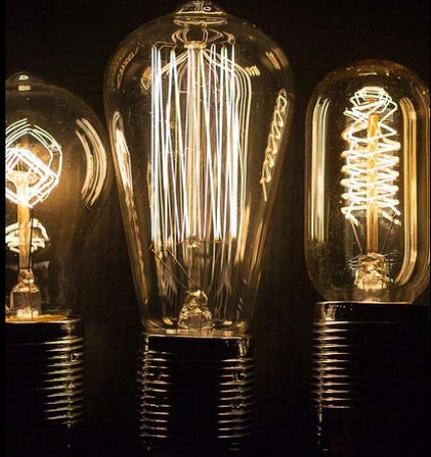
Relatively, equity positions have increased. In addition, the **proportion of unallocated equity** (retained savings) is also on the rise.

Proportion of Retained Savings by Cooperative Size, 2021



Source: USDA's Annual Survey of Agricultural Cooperatives





Addressing Common Cooperative Challenges with New Models

- New generation cooperatives
- LLCs operating with co-op features including profit-sharing among suppliers

New Gen Cooperative and LLC-hybrids

- Capital intensity of agricultural marketing and supply, particularly in value-added processing.
- A few very large producers (corn, pork, beef, poultry) can more easily work together than many smaller producers
- Solve for a common challenge of capital accumulation by permitted non-member investors.
- Can give voting rights to non-member investors.
- Patronage more aligned with ownership

TRADITIONAL COOPERATIVE	
VERSUS	
NEW GENERATION	
COMPARING 2 TYPES OF CO-OPS	
	
Raw material	Value-added processing
Commodity focus	Customer focus
Members contribute some capital	Capital intensive projects require larger capital contribution from members.
Allow non-member business	Closed membership
Issue common stock to members	Issue preferred stock to non-members
Shares can not be sold	Shares can be sold
No delivery rights	Delivery rights based on amount of shares owned.
No delivery obligations	Delivery obligations
Patronage based on use	Patronage based on number of shares owned



Email:
Keri.Jacobs@missouri.edu

Website: **GICL.missouri.edu**



Graduate Institute of
Cooperative Leadership
University of Missouri