



THE NEED FOR EFFECTIVE COOPERATIVES IN SOUTH CAROLINA

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A BRIEF HISTORY OF COOPERATIVES

(And: reasons to start a cooperative and some South Carolina examples)


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What Is a Cooperative?

- Definition: a farm, business, or other organization which is owned and run jointly by its members, who share the profits or benefits.
- Cooperative Movement: Started in England in 1844 during the Industrial Revolution
- First Cooperative in the U.S.: Mutual Fire Insurance – started by Ben Franklin
- Examples of Cooperatives: Agricultural Marketing Coops, Credit Unions, Farm Credit System, Rural Utilities, Mutual Insurance Companies, Consumer Coops (i.e., Grocery Stores), Workers' Cooperatives, Health Care, and Housing


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Why Would You Want to Form a Cooperative?

- Sharing infrastructure
 - Jointly owned processing facilities
 - Jointly owned honey house, for example
- Sharing overhead and human resource costs
 - Shared administrative help for regulatory red tape
 - Harmonized GAP. Aggregation of Land for Carbon Credits
 - Cape Romain Oyster Cooperative, for example
- Collaboratively marketing products
 - Aggregating supply to fill larger orders or gain access to a new market
 - The Gullah Farmers' Cooperative marketing to Sodexo/Beaufort Schools
- Enhancing local food systems
 - Collaborative storage and distribution of local products
 - Carolina Gold Rice producers collaborating to dry and store rice before milling


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Why Would You Want to Form a Cooperative?

- Shared communications and increasing impact
 - Increased impact with policy makers
 - Lowcountry meat producers, for example
- Shared philanthropic purposes
 - Food systems, food deserts, and social justice
 - Freedom Sowers Cooperative
- Shared resources and funding
 - Collaborate on grants and other funding available only to cooperative
 - The SC Beef Marketing Cooperative, for example
- Other cooperative purposes
 - Consumer cooperatives
 - Lending cooperatives (Farm Credit, Credit Unions), insurance cooperatives
 - Electric cooperatives, telephone cooperatives


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WHY DON'T WE START MORE COOPERATIVES?

A great article by Dr Phil Kenkel, Oklahoma State University
<https://southernmagtoday.org/2024/05/17/why-dont-we-start-more-cooperatives/>


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Reason #1: Lack of Understanding the Business Model

- A cooperative is a corporation
- Even current members of a cooperative may not understand its structure
- Most producers feel like the process is opaque, mysterious, and more complicated than other structures like LLCs

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Reason #2: Advisors More Familiar w/ Other Business Models

"A student could graduate with an MBA and never hear the word cooperative"

- Accountants, attorneys, and consultants are more likely to understand LLCs versus the cooperative model

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Reason #3: Access to Capital

- Most existing cooperatives are capitalized with past profits ("legacy cooperatives")
- Many new cooperatives need substantial startup capital
- There are newer cooperative models that can address some of these issues
 - Closed member cooperatives
 - Hybrid investor-member cooperatives
 - Next generation cooperatives
- However, these models require a more in-depth understanding of the cooperative business model

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Phil Kenkel's Advice?

- Start smaller cooperatives **with a service focus (less capital needed)**
- Create opportunities to achieve services to members at an at-or-below-cost level
- Examples: "condominium" grain storage, feral hog trapping equipment, and **shared use of machinery**
- Advice: "maybe we ought to recycle some good old ideas"


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THE NEED FOR EFFECTIVE COOPERATIVES

Southern Ag Today Articles:
<https://southernagtoday.org/2024/08/16/making-cooperatives-more-relevant-and-exciting/>


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Relevance (Awareness)

- Successful cooperative models exist: dairy cooperatives, credit unions, Farm Credit, mutual insurance, cotton gins, peanut shellers
 - Most people are unaware of the success of cooperatives
- Most people may not even know that a corporation is a cooperative, so it is hard to "follow the leader"
 - Example: Welch's Grape Juice
- Some new businesses mimic the cooperative model through things that appear, on their surface to be patronage dividends:
 - Wholesale club memberships
 - Loyalty programs


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Excitement (Leading the Charge)

- How does one get excited about a business structure?
- A cooperative does have its selling points: cooperation and democracy being two
- Past: cooperatives were a reaction to the Industrial Revolution
- Now: can cooperatives be a reaction to the Information/Digital Revolution
 - If you notice, most digital items are moving from ownership to access rights/fees
 - Spray Pros Drone Cooperative in Georgetown, SC
 - Proposed Malaysia Precision Agriculture Cooperative for small landholders (UN Publication)

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Recent Examples in South Carolina

Aggregation and collaborative marketing: more traditional models

- SC Cut Flower Growers Marketing Cooperative
- The Growers Alliance Cooperative in Conway, SC
- Business Continuity and Succession
 - Cape Romain Oyster Cooperative
- Social Purpose, Cultural, Community Development
 - Rural-Urban Cooperative
 - Norfell Bennett Farmers Marketing Cooperative
- Non-profit Cooperatives, Educational Purposes
 - Aiken Prescribed Burn Cooperative

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Regional/National Trends

- The local foods movement has created a lot of opportunities
 - Traditional cooperative aggregation, processing, marketing and distribution
 - Much of this movement was grant-funded and/or non-profit-led, which created a bit of a problem (profits are necessary)
- The rural grocery store initiative
 - A hybrid farmer cooperative and consumer cooperative
 - Indigo Basket: A Community-Owned Market in Camden, SC
- High Liability Industries
 - Logging and commercial fishing – employees become owners

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New Generation Cooperatives (NGCs)

- Purdue University has a good publication
- <https://www.extension.purdue.edu/extmedia/ld/ld-315.pdf>
- New Generation Cooperative differ from traditional cooperatives:
 - Many NGCs involve value-added processing
 - Significant equity contributions of members (remember Phil's article?)
 - Obligation of product delivery based on equity contribution
 - Ability to trade equity shares and delivery rights
- Similarities to traditional cooperatives:
 - Earnings based on member patronage
 - One member, one vote


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Example: 3 Grower-owned Peanut Shellers built plants in Georgia since 2003.

- **American Peanut Growers Group, LLC** (2003), Donalsonville, GA ~60 Producers, 10 Buying Points.
 
- **Tifton Quality Peanut, LLC** (2004), Tifton, GA ~140 Producers, 8 Buying Points.
 
- **Premium Peanut** (2015), Douglas, GA ~350+ shareholders, formed by 7 Buying Points, 11 currently.
 

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Example: *Next Generation Peanut Cooperatives*

- A share of stock is the right and obligation to deliver one ton of peanuts.
- Profits and Losses are returned to the members based on shares of stock.
- $\text{Stock price} = \frac{\text{capital needed}}{\text{supply needed}}$

NGC brings together financing and supply to operate a farmer owned processing operation.

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ILLUSTRATING THE NEED FOR EFFECTIVE COOPERATIVES IN SOUTH CAROLINA

Southern Ag Today Articles:
<https://southernagtoday.org/2025/07/18/using-cooperatives-to-enhance-competitive-advantage/>


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Enhancing Competitive Advantages

- **Marketing:** market access, value added products, and a **degree of protection from Anti-trust legislation**
- **Production:** Aggregating supply from a larger agricultural region that is **unlikely to experience a wide spread crop loss**
- **Casualty and Liability Insurance:** **Cooperatives as insurers**, such as Triangle Insurance. Also, the high liability industries – employees as owners.
- **Engaging the Next Generation:** bring in the next generation of owners.
- **Reducing Administrative Burdens:** Harmonized GAP, crop records, traceability

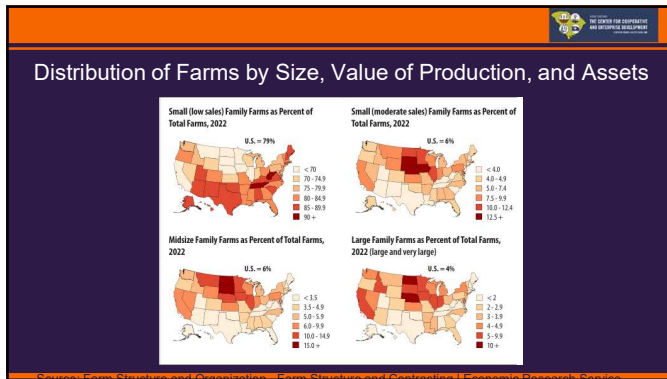
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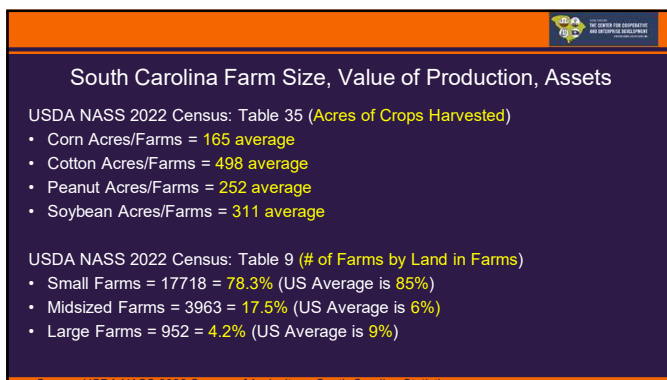
Which Farms Could Benefit the Most?

- In general, it is the Mid-sized Farm that experiences the most stress
https://www.researchgate.net/publication/228264830_Agricultural_Entrepreneurs_The_First_and_the_Forgotten
- Too large to tighten the belt
- Too small to increase scale rapidly enough
- And/or not enough capital to scale up

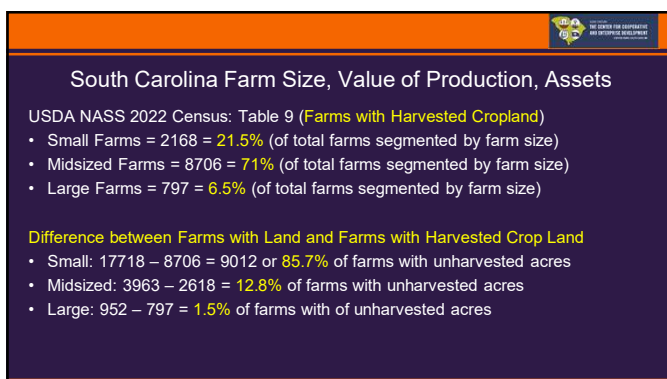
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What is a Good Way to Scale if You Can't Yourself?

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Simple Example: Equipment Sharing

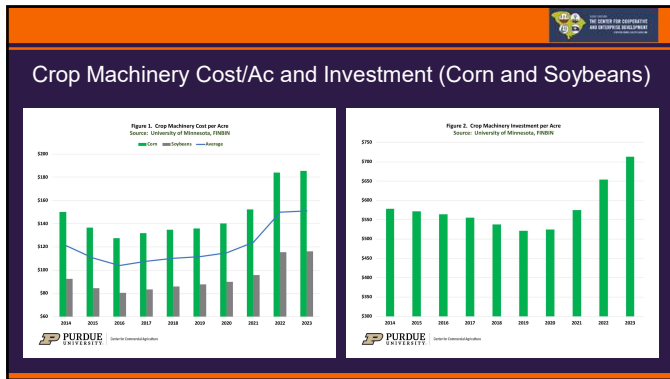
- Study: 20 years of grain farming operations to quantify timeliness and annual costs, with annual variations
- Findings:
 1. Machinery sharing helped farms to **reduce labor and machinery costs by 15%**
 2. Reduce **machinery investment by 50%**
 3. With increased savings from larger equipment

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What Would This Do for Farm Finances?

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Potential Impacts with Corn/Soybean Example

Cost per Acre:
 Machinery Ave = \$185/ac
 Labor Costs Ave* = \$56.58/ac
 Total per Acre Machinery and Labor: **\$241.56**

Machinery Investment per Acre Average: **\$713 per acre**

15% savings on Labor and Machinery = **\$36.34 per acre****
 50% savings on Equipment Investment = **\$356.50 per acre****

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Financial Ratios: All Agricultural Cooperatives

Financial ratios by co-op size

Measure	Total sales category (million \$)									
	Less than \$5	\$5-9	\$10-14	\$15-24	\$25-49	\$50-99	\$100-199	\$200-499	\$500-999	\$1,000 & more
Current ratio	1.82	1.84	1.73	1.56	1.41	1.48	1.30	1.37	1.41	1.36
Debt-to-assets	0.40	0.39	0.39	0.43	0.50	0.48	0.57	0.54	0.57	0.59
Long-term-debt-to-equity	0.20	0.18	0.13	0.19	0.21	0.17	0.22	0.33	0.38	0.44
Times interest earned	6.29	9.79	14.73	9.00	6.86	9.44	7.41	9.95	11.33	12.53
Fixed asset turnover	3.06	5.35	7.13	5.26	5.35	6.17	7.40	6.60	8.40	9.75
Equity-to-assets	0.60	0.61	0.61	0.57	0.50	0.52	0.43	0.46	0.43	0.41
Expenses-to-gross revenue	0.98	0.86	0.82	0.84	0.89	0.86	0.85	0.76	0.71	0.69
Gross margin	20.40	21.99	19.20	17.20	15.73	14.02	10.74	15.68	13.26	11.31
Return on total assets	4.69	8.56	10.18	7.93	4.72	5.95	5.62	8.68	10.71	10.83
Return on allocated equity	11.66	23.27	31.37	26.13	17.95	23.03	27.27	53.42	60.97	43.06

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Financial Ratios: Service Cooperatives

TABLE 25 - Common-size income statement, U.S. ag co-ops, by type, 2022

	Marketing	Supply	Service	Total
	Percent of total gross business volume			
Income				
Commodities marketed	78.88	16.57	0.00	62.15
Farm supply sales	19.03	80.59	0.58	35.30
Total sales	97.88	97.17	0.58	97.44
Cost of goods sold	98.91	98.80	0.37	98.78
Gross margin	10.77	10.36	0.21	10.66
Service & other operating income	1.53	1.86	87.83	1.71
Gross revenue	12.30	12.22	97.04	12.38
Expenses				
Wages	3.88	5.85	24.11	4.43
Depreciation	1.29	1.35	7.55	1.31
Interest expense	0.43	0.34	1.27	0.40
Other expense	2.83	2.93	49.06	2.91
Total operating expenses	8.42	10.47	82.59	8.09
Net operating margin	3.87	1.78	14.45	3.33
Patronage from other co-ops	0.20	0.40	0.27	0.28
Nonoperating income	0.59	0.58	2.33	0.59
Net income before taxes	4.66	2.73	17.04	4.17
Taxes	0.19	0.20	(0.02)	0.13
Net income	4.46	2.54	17.06	4.04

USDA Rural Development Service Report 66: Annual National Cooperative Statistics - 2022

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CHALLENGES

Its not all green grass and rainbows:
The Farm Credit Food Hub Benchmark and "The Cooperative Challenge"

SOUTH CAROLINA
THE CENTER FOR COOPERATIVE
AND ENTERPRISE DEVELOPMENT
EDDING HUBB, SOUTH CAROLINA

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Where is South Carolina in Terms of Coops?

- South Carolina has so few cooperatives, it is listed under "Other States" and is combined with Alaska, Connecticut, Washington DC, Delaware, New Hampshire, New Mexico, Rhode Island and Vermont for a total of 29 cooperatives with 18,711 members.
- There are not good "role models" and there have been past failures
- As a comparison, Alabama has 44 active cooperatives operating in the state, and Kentucky has 157,684 cooperative memberships.

Source: USDA Annual National Cooperative Statistics - 2022

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Results of the Cooperative Challenge

- Three cooperative interest meetings: conventional small producers (SC), sustainable producers (NC), and organic producers (GA). A total of 88 responses, with 66 usable responses, were approximately equally divided among the groups.

Preliminary results to help define:

- What are the biggest challenges and best practices when forming a cooperative?
- What are some things we can learn about cooperative formation challenges and opportunities in order to be more successful in cooperative formation?

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Response Variance and Disagreement


Disagreement By Category

- Money and equity questions were the most controversial (most variance)
- Membership questions second most controversial
- Management (bylaws) least controversial

Highest Disagreement: By Question

- How Membership is Valued/Can be Redeemed (Selling Shares)
- Salary (and Benefits) for General Manager
- Cash outlay (vs Debt) to establish Cooperative

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Response Variance and Disagreement

Lowest Disagreement: By Question

- Allowing new members to join as long as they contribute cash
- Expelling a member for paperwork reasons
- Correcting product quality issues
- Agreeing to provide non-members services, for a fee

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Food Hub Benchmark (Farm Credit East)

Counting Values: The title of the benchmark and the explanation that there is a social purpose for food hubs, outside of economic performance.

- 48 participants throughout the U.S.
- As with many voluntary benchmarks, the participants are often skewed toward higher-performers.
- A wide range of sizes and locations

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Food Hub Benchmark (Farm Credit East)

Profitable Food Hubs:

- Paid more for their labor
- Spent more on advertising/selling
- Returned a bit less to the farmers
- Had scaled operations to operate efficiently at low gross margin levels (14.5% ave)
- Managed growth (slow) and wise infrastructure investments to keep overhead low

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Cooperative/Food Hub Challenges

1. To be sustainable long-term, a food hub has to generate a positive return.

"The triple bottom (social, environmental, and financial) is only possible if there are financial returns to support the other two bottom lines."

-Steve Cook, GM of Friendly City Food Coop.

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Cooperative/Food Hub Challenges

2. The value proposition (**especially initial capitalization**) has to be shared more equitably between the farmer and the food hub

- The life cycle of the business necessitates **different levels of profit sharing at different stages**.
- **The farmer has to have skin in the game** – more so in the beginning, when the business is growing.

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Cooperative/Food Hub Challenges

3. The profitable food hubs **spent more on labor**

- Key employees are critical to the success
- Labor becomes more efficient at higher wage rates
- Turnover decreases at higher wage rates

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Cooperative Challenges

- Farmers making time for Board Meetings
- Farmers Serving on the Board of Directors
- Finding a Capable General Manager
- **"Sometimes the Best Solution is not the Easiest Solution" - Me**

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South Carolina
Center for Cooperative and Enterprise Development
Serving Rural South Carolina



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A collaboration between Clemson, SC
Department of Agriculture, SC Small Business
Development Center, and Matson Consulting.

Technical Assistance and resources for business
planning, feasibility studies, business startups,
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