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# Co-operative Marketing Options for Organic Agriculture

Jason Heit and Michael Gertler

**A research report prepared for the Northern Ontario, Manitoba,  
and Saskatchewan Regional Node of the Social Economy Suite**

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Entreprises sociales  
économies intelligentes  
et communautés durables



# CO-OPERATIVE MARKETING OPTIONS FOR ORGANIC AGRICULTURE



We acknowledge with gratitude the financial support provided to this project by the Advancing Canadian Agriculture and Agri-Food Saskatchewan Program (ACAAFS).

## Dedication

This report is dedicated to Walter Nisbet (1930–2008).  
As a board member of the Canadian Organic Certification Co-operative,  
he initiated this research partnership and provided valuable direction.  
Walter was an intrepid co-operative and agricultural pioneer who understood  
that sustainable rural development requires both organizational  
and farming system innovation.  
His leadership is remembered and his wise counsel sorely missed.

This paper is part of a collection of research reports prepared for the project  
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at Algoma University.

The project also includes more than fifty community-based organizations  
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Further acknowledgements are found on page xiii.

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### LIST OF ABBREVIATIONS

ACAAFS	Advancing Canadian Agriculture and Agri-Food Saskatchewan
CAAQ	Conseil des Appellations Agroalimentaires du Quebec
CB	Certification body
CFIA	Canadian Food Inspection Agency
CIC	Crown Investment Corporation
COCC	Canadian Organic Certification Co-operative
COG	Canadian Organic Growers
COPMC	Canadian Organic Producers Marketing Co-operative

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CSC	Centre for the Study of Co-operatives
CWB	Canadian Wheat Board
EDC	Export Development Canada
EU	European Union
FCL	Federated Co-operatives Limited
FTC	United States Federal Trade Commission
GfRS	Gesellschaft für Ressourcenschutz mbH
HOMC	Heartland Organic Marketing Co-operative
IFOAM	International Federation of Organic Agriculture Movements
IOFs	Investor-owned firms
JAS	Japan Agriculture Standards
MAC	Marketing agency-in-common
NGC	New Generation Co-operative
NOCMC	Northwest Organic Community Mills Co-operative
OCIA	Organic Crop Improvement Association
OCPP	Organic Crop Producers and Processors
OC/PRO	OCPP/Pro-Cert
OPAM	Organic Producers Association of Manitoba
OPIS	Organic Product Information Service
PDS	Producer Direct Sale
POFs	Producer-owned firms
QAI	Quality Assurance International
QMI	Quality Management Institute
SCC	Standards Council of Canada
SGGF	Saskatchewan Government Growth Fund
SOCA	Saskatchewan Organic Certification Association
SOD	Saskatchewan Organic Directorate
SFSC	Short Food Supply Chain
STEP	Saskatchewan Trade and Export Partnership
SWP	Saskatchewan Wheat Pool (Viterra)
USDA NOP	United States Department of Agriculture National Organic Program



## CENTRE FOR THE STUDY OF CO-OPERATIVES

THE CENTRE FOR THE STUDY OF CO-OPERATIVES is an interdisciplinary teaching and research institution located on the University of Saskatchewan campus in Saskatoon. Contract partners in the co-operative sector include Credit Union Central of Saskatchewan, Federated Co-operatives Limited, Concentra Financial, and The Co-operators. The Centre is also supported by the Saskatchewan Ministry of the Economy and the University of Saskatchewan. The university not only houses our offices but provides in-kind contributions from a number of departments and units as well as financial assistance with operations and nonsalary expenditures. We acknowledge with gratitude the ongoing support of all our sponsoring organizations.

The objectives of the Centre are:

- to develop and offer university courses that provide an understanding of co-operative theory, principles, developments, structures, and legislation;
- to undertake original research into co-operatives;
- to publish co-operative research, both that of the Centre staff and of other researchers; and
- to maintain a resource centre of materials that support the Centre's teaching and research functions.

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## EXECUTIVE SUMMARY

OVER THE LAST THREE DECADES, organic foods have become increasingly popular among consumers seeking healthy and sustainable ways to eat. On farms throughout the country, organic pioneers have been joined by other innovative producers who are taking up the challenge of organic production and of meeting the new demand. The number of organic producers in Canada, and in the province of Saskatchewan in particular, has grown substantially. However, in addition to agronomic challenges, organic farmers continue to face issues of market access, reliable price and market information, and asymmetrical power relationships in the marketplace that result in lower returns to producers. As one response, organic producers continue to explore co-operative and related joint-marketing alternatives as a means to address market problems and to provide themselves and their communities with the economic and social benefits that can be achieved through co-operation. A key objective of this research report is to explore and assess potential options for organic producers who are seeking to develop new co-operative processing and marketing initiatives or to further develop existing co-operative marketing enterprises.

This report profiles the experiences of several co-operatives and related kinds of producer-owned enterprises that organic field crop producers in Saskatchewan have helped to develop over the past several decades. It also presents brief profiles of several other marketing firms. Through a review of co-operative marketing literature and an analysis of these enterprise experiences, it considers possible strengths and limitations of various co-operative business models. The report concludes with some recommendations for organic producers wanting to develop new or existing co-operative enterprises for processing and/or marketing organic field crops.

### **The Organic Food Supply Chain**

One distinguishing feature of the organic food supply chain is that it links or “embeds” food products with information that consumers value (see Marsden et al. 2000; Ferguson et al. 2005, no. 5), given that a third-party certifying body ensures that the production and handling of these foodstuffs meets relevant organic standards. In Saskatchewan, an organic field crop supply chain has developed that assures buyers in Canada and internationally that organic products are produced and handled according to applicable organic standards. Saskatchewan’s organic field crop supply chain includes a number of key groups: producers, certification bodies, marketers, processors, distributors, and food retailers. Several significant regulatory and market-related issues have confronted a number of these groups: changes in Canadian Wheat Board (CWB) practices and requirements with respect to the sale of organic grains; the introduction of a new regulatory framework for Canada’s organic sector; the increasing commercialization and industrialization of organic production and processing activities; and the associated entry of some large, multinational, corporate players.

### **Ideas and Issues Relevant to the Co-operative Marketing of Organics**

Incomplete information and information asymmetry are important marketing issues affecting producers and other groups in the supply chain for organic field crops. Incomplete information refers to the lack of accurate and reliable price and production information that occurs as a result of the limitations and high costs associated with gathering information. Information asymmetry refers to a circumstance where one party in a transaction has more or better information than the other party. One way that producers have responded to these problems of asymmetrical and incomplete information is by forming co-operative organizations that co-ordinate producer activities, promote transparency, and collect and share price and market information.

Students of co-operative marketing have identified several types of co-operative organizations that agricultural producers might form to avoid the negative consequences of unequal market power/control, to achieve economies of scale, to manage risk, to provide missing services, or to realize (capture) additional marketing margins. According to some scholars, such co-ops can be usefully classified under the following categories: local co-operatives, multiser-

vice regional co-operatives, bargaining co-operatives, marketing co-operatives, and new generation co-operatives (see Cook 1993; 1995). All these types of co-operatives can be useful to producers in various ways, but analysts have suggested that certain types of co-operatives are more susceptible than others to particular kinds of decision control and property rights problems. The financial and organizational problems that some economists identify as key issues for co-operatives include: principal-agent (control) problems, free-rider problems, and influence-cost problems.

Principal-agent problems occur when stakeholders perceive and act on different interests. In co-operatives this can happen when the member-owners (principals) find they cannot adequately supervise or monitor managers (their agents) due, for example, to the complexity of the operations and unequal access to important information. Free-rider problems occur in co-operatives when members behave in an individualistic way rather than pursuing common goals and interests. A typical free-rider problem occurs when individuals shirk on making investments in the co-operative but continue to use and/or benefit from the organization. This depletes the common resources or capital of the co-operative. So-called influence costs arise when co-op members use influence/power to gain preferential access to opportunities. Influence activities might include seeking special treatment from employees or using organizational resources for personal gain. Horizon and portfolio problems are two special types of influence-cost problems. (See Cook 1995 for further discussion on the effects of property rights and decision control problems on co-operatives).

While analysts have highlighted some potential problems associated with co-operative business arrangements, these issues are not necessarily large compared to the advantages gained through co-operation. Nor are they equally significant in all situations. Co-operatives developed to do things such as processing and marketing primary agricultural products are often successful (Nilsson 2001). Moreover, co-operatives are frequently seen as desirable organizational models for reasons that go beyond managerial or financial efficiency. In diverse contexts, co-operatives have proven to be important tools for promoting more sustainable forms of rural development.

### **Profiles of Organic Marketing Firms Operating in Saskatchewan**

Researchers at the Centre for the Study of Co-operatives (CSC) interviewed producer members and other key actors from several organic marketing firms that have operated, or are operating currently, in Saskatchewan. They used the information gathered

from these interviews to create profiles of these enterprises. They gathered additional information from newspaper articles, trade magazines, and organizational websites. The following organizations are profiled in some detail: Canadian Organic Producers Marketing Co-operative Ltd., Marysburg Organic Producers Inc., FarmGro Organic Foods Inc., Farmer Direct Co-operative Ltd., and Northwest Organic Community Mills Co-operative Ltd. Several additional enterprises are discussed, but in less detail: Sunrise Foods International Inc., Mark Gimby Enterprises, Wroxton Organic Farmers Co-operative, and the Prairie Red Fife Wheat Organic Growers Co-operative.

The Canadian Organic Producers Marketing Co-operative, incorporated in 1983, was the first producer-owned, organic, field-crop marketing co-operative in Saskatchewan. The co-op was located in Girvin, just off the highway that joins Regina and Saskatoon, and included members from Saskatchewan, Alberta, Manitoba, and other parts of Canada. Aside from marketing member grain, the Girvin Co-op cleaned and processed organic field crops, provided organic certification services to its members, and did some value-added processing. The co-op declared bankruptcy in the early 1990s.

Marysburg Organic Producers was a nonprofit corporation owned and operated by producer members. It marketed member field crops in domestic and export markets. The organization did not own or operate a cleaning and processing facility. Rather, it outsourced these activities to members and nonmembers with cleaning and processing capacity. Marysburg Organic Producers shut down in 2005.

FarmGro Organic Foods, a for-profit corporation that marketed organic grains, started operating its Regina cleaning and processing facility in 2000. The facility was financed with investment from foreign firms, the provincial and federal governments, and a number of Saskatchewan investors, including many organic producers. The company was placed in receivership in December 2002.

Farmer Direct Co-operative is a producer-owned marketing co-operative that was established in 2001. The Regina-based co-operative has producer members from across Saskatchewan and other parts of western Canada. Since the co-op does not operate its own cleaning and processing facilities, it outsources these activities to member and nonmember grain cleaners. The co-op is known for its innovative product-tracking systems and domestic fair trade program, and it has developed a close working relationships with a large organic dairy co-op in the USA.

Northwest Organic Community Mills Co-operative is a new generation co-operative that markets organic field crops for its producer members. Incorporated in February 2003, the co-op operates a cleaning and processing facility in the community of Maymont, Saskatchewan. In addition to grain cleaning and marketing, the co-op has also developed its own line of value-added products that it markets under the name Old School Organics.

### **Analysis of Potential Property Rights Issues in Co-operatives**

Many agricultural economists (e.g., Cook 1995) have focused on the potential effects of certain property-rights problems on various types of agricultural co-operatives. This study employed some elements of such a framework to consider the effects that property rights and related issues have had, or might have, on the organizations that were profiled. According to Cook, marketing co-operatives are susceptible to agency problems (control problems) and influence-cost problems. Researchers found some indications of possible agency problems in some of the marketing organizations examined here. However, it was also the case that some of these organizations relied heavily on the volunteer efforts of key members and did not have sufficient organizational slack (or resources) to cope with the loss of a key member. An influence-cost problem (namely, the so-called portfolio problem) does seem to have been an issue in the shutdown of at least one of the organizations profiled here. Some of the existing organizations also faced potential risks from influence-cost and free-rider problems.

### **Enterprise Models**

Project researchers identified three enterprise models that a producer group wanting to establish an organic field crop marketing and/or processing co-operative might consider. The first model is a co-op marketing organization that outsources member grain to a network of grain cleaners and processors. Since this model relies on existing cleaning and handling capacity, it reduces the capital contributions that producer members need to make to start the organization. Further, the organization is able to focus more resources and capacities on the task of marketing grain rather than operating a cleaning and processing plant. On the other hand, this model could hinder the ability of the co-operative to realize economies that can be achieved by blending product on site.

The second model is a producer marketing co-operative that owns and operates a centrally located grain cleaning and processing facility. This model generally requires a more substantial capital contribution on behalf of members. Some co-operatives have relied on donations of volunteer labour and managerial time, in-kind contributions of equipment, and investment from community supporters to start up their organization and facility. An important strength of this model is the ability of the organization to realize economies of scale via high-throughput cleaning systems, on-site storage, and co-ordinated deliveries and shipments. However, while this model can reap some available economies of scale, owning specialized cleaning and processing equipment may reduce organizational flexibility and may also create some barriers to diversification.

A third model — a co-operative marshalling point — is an option that focuses less on marketing and more on the benefits of a co-operatively owned storage, cleaning, and processing facility. This model helps members realize economies of scale should they decide to conduct some informal marketing (e.g., joint sales using producer cars), while avoiding the costs associated with employing marketing staff. However, the informal structure of this relationship could lead to potential problems as some members might overuse the resources of the co-operative, limiting access by other members. In order to deal with such issues, a co-op of this kind needs to clearly define policies and procedures to ensure that all members are treated fairly in terms of access to, and use of, the facility.

### **Lessons and Recommendations**

Based on information gathered from field interviews and from literature on organic marketing and co-operative enterprises, it is possible to identify several key lessons and recommendations for new and existing organic marketing co-operatives:

- *Identify the services that are most important to members (and potential members) and make these an organizational priority.*
- *Carefully evaluate marketing options, in particular the benefits and costs of value-added versus bulk organic commodities.*
- *Identify the commodities for which producer members require marketing assistance and the particular mix of commodities that is most reasonable, given the capacities of the organization.*
- *Consider multistakeholder co-operative models that include interested community members and employees as participants and investors.*

- *Set membership fees to cover a majority of start-up capital costs (member fees should not be nominal) and provide for other methods of member investment.*
- *Recognize the role and importance of the marketing agent, and make appropriate provisions with respect to both compensation and organizational resilience.*
- *Provide diverse opportunities for member participation, but avoid overreliance on a small number of volunteers.*
- *Establish links with other co-operatives and share product knowledge with food-sector decision makers.*
- *Reduce exposure to market risks by pooling, using management tools such as export insurance, and developing relationships with multiple, trustworthy traders.*
- *Treat all customers, employees, and members fairly and equitably.*
- *Share the stories of the organization and its producer members.*
- *Plan for the development of the business and the organization by engaging with member-owners in ways that highlight the co-operative difference and promote member development.*

### **Opportunities and Challenges**

Given the number and distribution of organic field crop producers in the Province of Saskatchewan, there appears to be significant potential for new and/or existing marketing co-operatives to establish facilities in regions of the province that are currently underserved. Further, there also appear to be opportunities for new and existing co-operatives to work together either through a federated network that shares information and resources, or through a domestic fair trade program such as the one being developed by Farmer Direct.

There also appear to be some barriers to new co-operative developments in Saskatchewan's organic sector. Some of these barriers are philosophical in that certain producers, financial lenders, and agri-business developers may be skeptical about (or poorly informed about) co-operative forms of business. Other barriers are based on demographic, geographic, and agronomic differences. For instance, some producers who are approaching the end of their farming careers may be averse to making significant capital contributions to help establish a new co-operative enterprise. In other instances, there may be regions where a cluster of producers already enjoys a good working relationship with an existing grain marketer, thereby limiting the potential for a new start-up in that region. Apart from these issues, producers in Saskatchewan's organic sector continue to be somewhat fragmented along organi-

zational lines, and to have different ideas when it comes to important questions such as appropriate roles and practices for the CWB.

The authors are hopeful that this report will assist organic producers to discover and implement collaborative and co-operative approaches to deal with the serious challenges and many untapped opportunities in this industry. Innovative co-operative arrangements have already had a strong impact on the organic sector and can make many more contributions to the development of a viable and sustainable industry that fairly rewards all participants and is attractive to all stakeholders.

## Chapter One

### INTRODUCTION

SASKATCHEWAN BOASTS one of the strongest organic agriculture sectors in Canada. The province is home to the largest number of organic producers in the country (Statistics Canada 2007). There are also a significant number of organic producer organizations and innovative, farmer-led marketing enterprises. The growth and success that the sector has experienced in the past several decades is a product of the dedication, industry, co-operation, and spirited creativity of organic producers and their supporters. In 1982, organic field crop producers in Saskatchewan established the province's first organic marketing co-operative as a response to the limited marketing options then available. Today, organic producers continue to cope with issues of market access, reliable price and market information, and asymmetrical power relationships in the marketplace. As a result, many producers continue to be interested in co-operative and joint-marketing options as tools to improve their marketing margins, and as organizations that will reliably address their interests as their crops are processed and sold. With these issues and challenges in mind, the purpose of this research report is to explore and assess potential options for organic producers who are seeking to develop new co-operative processing and marketing initiatives or to further develop existing co-operative marketing enterprises.

In order to evaluate various co-operative alternatives for handling and marketing organic field crops, the research team sought the input of key actors who were or are involved with past or existing co-operative marketing organizations, and with similar producer-led enterprises. Interviewees shared their stories and knowledge about marketing organic commodities and their experiences establishing and operating producer-owned marketing organizations. Their contributions shape this research report and provide the basis for profiles of some of the important co-operative and related farmer-directed marketing initiatives that

Saskatchewan organic producers have established. Their input has informed our analysis and discussion of alternative enterprise models for developing new and existing co-operative marketing organizations. Along with lessons gleaned from the literature, their insights are also reflected in the recommendations we have put forward for the consideration of groups contemplating the development of co-operatives or similar joint-marketing initiatives.

### **Project Origins**

The Canadian Organic Certification Co-operative (COCC) initiated this research project in partnership with the Centre for the Study of Co-operatives (CSC) at the University of Saskatchewan.<sup>1</sup> The Advancing Canadian Agriculture and Agri-Food Saskatchewan (ACAAFS) program provided core funding for the project. The project qualified for funding under ACAAFS Pillar I — Industry Led Solutions to Emerging Issues. Additional funds and in-kind contributions were furnished by the CSC and the COCC. The project partners also received the support and endorsement of the Saskatchewan Co-operative Association. Researchers from the Centre for the Study of Co-operatives carried out the study; board members of the Canadian Organic Certification Co-operative worked in close consultation with the researchers. The field research was conducted in accordance with the research ethics protocols set out by the University of Saskatchewan Behavioural Research Ethics Board.

### **Research Plan and Approach**

The primary objective of this study and this report is to provide information to producers who are interested in developing co-operative processing and marketing enterprises for organic field crops such as cereals (e.g., wheat, barley, rye, and oats), pulses (e.g., lentils, chickpeas, and dried field peas), and oilseeds (e.g., canola and flaxseed).<sup>2</sup> The main focus of this study is co-operative marketing of organic field crops, but it is understood that marketing may or may not include a range of processing and handling activities. Marketing itself includes activities such as locating a buyer, negotiating terms and conditions, completing the sale, and assuring payment to sellers and service providers. It may also include activities such as creating a “brand” and developing commercial connections. The marketing of organic grains is often associated with processing activities that may or may not be handled by the same enterprise. Processing can include primary handling and processing activities

such as cleaning, blending, and bulk bagging, and also value-added processing activities such as the preparation of flours and mixes, and packing in consumer-sized packages.

A secondary objective of this research was to document and relate the story of Saskatchewan's organic sector, especially with respect to the organizations that organic field crop producers have established to handle and market their organic grains. In pursuit of these combined objectives, the research team interviewed key actors associated with a number of co-operatives and other producer-led marketing initiatives. In addition to this field interview data, we gathered information from websites, newspaper articles, journal articles, and other published and unpublished sources to document the history and context of these organizations and the challenges they have confronted. These sources were also used to supplement and verify information gathered via the interviews, and to provide background for the analysis and recommendations included in the report.

Interview participants were selected based on their affiliation with particular marketing organizations and/or their experience and knowledge of Saskatchewan's organic sector. Many of these individuals were identified by the research team, sometimes in consultation with the COCC. Others were identified by people we contacted in one or another of the organizations under study. As mentioned, individuals were asked to grant an interview due to their association with one or more marketing organizations, or because of their knowledge of the organic sector. Semi-structured interviews were conducted with these key actors, either in person or over the phone. Each interview generally lasted between sixty and ninety minutes and was recorded using a digital or cassette recorder. The recorded interview was then transcribed and a copy of the transcript was mailed to the interviewee for his or her review and approval.<sup>3</sup> The researchers conducted twelve interviews between late August and early November of 2007. In some instances, more than one respondent was present.

### **Report Structure**

In this first chapter we introduce the study, explain how it originated, and discuss the research framework and approach. The second chapter provides more detail on the organic field crop sector in Saskatchewan and highlights the various groups and organizations that make up the organic field crop supply chain. The chapter concludes with a discussion of some of the significant issues that are important to various key groups in the organic field crop supply chain.

The third chapter draws on selected economic, business, and co-operative studies sources to focus on some of the marketing issues that are relevant to organic producers and organic marketing co-operatives. It introduces some concepts that are potentially useful in understanding some of the ways that co-operative enterprise and collective action can be useful to organic producers when it comes to processing and marketing their farm products. The chapter also reviews some of the co-operative forms that are available to producers and discusses organizational problems that can affect co-operatives both in theory and in practice.

The fourth chapter profiles several producer-owned, producer-controlled firms (co-operatives and nonprofit corporations) as well as several (nonfarmer) investor-owned firms (IOFs) that have participated in the marketing of organic field crops in Saskatchewan. The following organizations are profiled in some detail:

- Canadian Organic Producers Marketing Co-operative Ltd.
- Marysburg Organic Producers Inc.
- FarmGro Organic Foods Inc.
- Farmer Direct Co-operative Ltd.
- Northwest Organic Community Mills Co-operative Ltd.

Several other enterprises are also introduced and profiled, but in less detail:

- Sunrise Foods International Inc.
- Mark Gimby Enterprises
- Wroxton Organic Farmers Co-operative
- Prairie Red Fife Wheat Organic Growers Co-operative Ltd.

The fifth and final chapter provides further discussion and analysis of some of the organizations profiled. This chapter also identifies and discusses several enterprise models that the organizational profiles illustrate. The chapter includes some recommendations for organic field crop producers who are interested in organizing or further developing a co-operative marketing enterprise. It concludes with a more general discussion of challenges and opportunities for the development of marketing co-operatives and similar joint-marketing initiatives in the context of Saskatchewan's organic sector.

## Chapter Two

### THE ORGANIC FOOD SECTOR IN SASKATCHEWAN

THE YEAR 2006 WAS A GOOD ONE for Saskatchewan's organic food sector, if not in the field, then at least in the provincial legislature. After more than three decades of operating in the shadows of Saskatchewan's conventional food sector, organic agriculture was recognized by the provincial government as an important element of Saskatchewan's economy and a symbol of "our connection to the land and our commitment to environmental stewardship" (Borgerson 2007, 1). In September 2007, Lon Borgerson, a member of Saskatchewan's Legislative Assembly (and Legislative Secretary for Organic Farming), presented his report on the opportunities for organic agriculture in Saskatchewan, making several recommendations to the government as to how it might better support the province's organic sector. In November 2007, a new government was elected. Regardless of whether this government chooses to allocate significant resources to the sector, Saskatchewan's organic producers have a long history of mutual support and co-operation. This willingness to associate and act collectively, combined with plenty of "do-it-them-selves" and independent thinkers, should guarantee that the sector continues to evolve in new and interesting ways.

In this chapter we focus on the organic field crop supply chain, which constitutes the most significant component of Saskatchewan's organic sector. To begin, we discuss features that distinguish organic food chains from conventional agriculture and provide a brief history of Saskatchewan's organic sector, with emphasis on the field crop sector. We also describe the groups and organizations involved, and conclude by highlighting some important issues and challenges.

### The Organic Supply Chain

A primary difference between the organic agri-food supply chain and conventional food supply chains is the embedding of products with information that consumers value. Specifically, the organic supply chain assures consumers that the products they buy are grown, processed, and handled in ways that are consistent with organic farming and processing practices as specified by one or more organic certification bodies. This is important since these products are generally undistinguishable to the naked eye. In order to assure consumers that an organic product is what producers, marketers, processors, and retailers say it is, there is a need for independent third-party certification. As Ferguson et al. have stated, “[t]he organic characteristic is a credence attribute, which means that it cannot be physically verified either before or after consumption” (no. 6, 2). It is the role of organic certification bodies to monitor and verify the activities and operations of producers, handlers, and marketers, thereby signaling and confirming the presence of the desired attributes.

Marsden et al. (2000) characterize the organic food supply chain as one of a number of Short Food Supply Chains (SFSCs) operating in the modern “food economy.” The information-embedding procedures that the organic food supply chain and other SFSCs use, such as audit-trails and third-party certification, provide consumers with confidence that the products they purchase have been grown, handled, and processed according to recognized organic methods that reflect the values of the organic movement. The organic supply chain, like other SFSCs, creates a connection between the consumer and the producer through the values and meanings that are linked to the transaction (Marsden et al. 2000, 425). They argue that for an SFSC, “it is not the number of times a product is handled or the distance over which it is ultimately transported which is necessarily critical, but the fact that the product reaches the consumer embedded with information” (2000, 425). Apart from assurances that the food was produced and handled according to organic standards, the embedded information might include the origin of the product in terms of region or even the specific farm where it was produced. According to this definition, fair trade, local, and kosher foods are also examples of SFSCs.

Organic farming is not necessarily immune from the commercial and industrial reorganization that has helped to transform many parts of conventional agri-food systems. Kinsey

(2001) examines the changes taking place in parts of the organic supply chain and relates these to larger trends in the “food economy.” She highlights the increasing industrialization of the organic supply chain both at the producer and retail ends of the chain and suggests that “concentration and the adoption of new technologies happened sooner at the production and processing end of the chain,” while at the retail end of the chain these changes have generally occurred later but faster (2001, 1125).

In *The Omnivore’s Dilemma*, Pollan (2006) critiques the conventional and organic food chains, suggesting that the corporatization and industrialization of organic agriculture have caused that sector to become increasingly environmentally unsustainable. Many large-scale corporate organic farms use production techniques that rely on large amounts of energy in the form of petroleum for farming operations and transport, and for technologically sophisticated processing facilities. Guthman (2004) critiques the industrialization of the Californian organic sector, analyzing the regulatory, structural, and cognitive changes that have led the organic movement down an industrial path. Like Pollan, she argues that there must be “more productive roads to a more ecologically benign and socially just agriculture” (2004, 22).

### **Saskatchewan’s Organic Supply Chain**

This section discusses Saskatchewan’s organic supply chain with a focus on organic field crop production and marketing. In addition to a short history of the sector, it characterizes some of the groups involved, and discusses some issues relevant to sector stakeholders.

#### *A Short History*

The organic sector in Saskatchewan is largely centred on the production, processing, and marketing of field crops. The geography and climate of southern and central Saskatchewan are well suited to the production of grains, oilseeds, pulses, and specialty crops such as mustard, quinoa, caraway, and millet. Raising organic livestock is also quite common in Saskatchewan and includes production of beef cattle, bison, poultry, sheep, and some exotic and game species. Organic vegetable production is frequently destined for sale directly to patrons of farmers’ markets, which are now found in many towns and cities.

While it is likely that there has always been some field crop production in Saskatchewan that did not include the use of synthetic chemical products for the control of insect pests and weeds, or other industrial inputs such as nitrogen fertilizers, Saskatchewan’s organic agricul-

ture movement only began taking shape in the 1970s. Initially, there were few producers and buyers. Many sales occurred at the farm gate or when producers marketed directly to health food stores or co-op food stores that specialized in organic production.<sup>4</sup> It was not until the early 1980s, with the formation of the Canadian Organic Producers Marketing Co-operative (or Girvin Co-op), that the movement began to formally organize and to address the need for better marketing infrastructure and production information, as well as certification issues important to consumers, marketers, and the movement as a whole.

During the mid-1980s, with the Girvin Co-op in operation and the organic movement growing steadily on the retail side, certification bodies such as the OCIA (Organic Crop Improvement Association) established themselves in the province, providing the third-party certification that the marketplace was demanding. Some new buyers and processors also entered the marketplace, including Growers International Organic Sales in 1985 and Poplar Valley Organic Farms in 1989. For the most part, however, new market opportunities and processing capacity were slow to develop in the province, and when the Girvin Co-op failed in the early 1990s, many organic producers were left to their own to find markets for their production. Shortly thereafter, a group of producers belonging to OCIA Chapter Five established Marysburg Organic Producers Inc., a nonprofit corporation dedicated to marketing the organic production of farmer members.

In the 1990s, increasing public awareness and understanding of organics helped to bring the movement into the mainstream. With a growing market for organics, an organic industry began to develop in Saskatchewan as new organic producers and marketing enterprises such as Sunrise Foods came on line. Some of the established grain handlers and marketers, such as the Saskatchewan Wheat Pool (SWP), also decided to claim a place in the growing organic sector. For instance, in 1998 the SWP converted its flour mill in Humboldt into a dedicated organic facility (*Business Wire* 1998). Awareness and understanding of organic farming and foods was also raised by the work of organizations and groups representing the industry, such as the Saskatchewan Organic Directorate (SOD) and the Canadian Organic Growers (COG). (see Figure 2.1, facing page, for descriptions of SOD and COG).

Since the year 2000, new players and producer-owned firms, such as Farmer Direct and Northwest Organic Community Mills Co-operative, have been organized to supply the growing demand and to meet the needs of producers seeking to enhance their marketing options and power in this burgeoning sector. They face many challenges, including stiffer competition from other enterprises occupying strategic positions in various parts of the supply

chain. In some cases, the values and idealism of the early organic movement have been diluted by narrower and more commercialized perspectives embraced by certain marketers, processors, and producers motivated mainly by the opportunity to capitalize on the growth experienced in the sector. However, there is also much to be celebrated in the organic movement. Saskatchewan's organic movement continues to be a source of marketing and product innovation, it continues to empower and add to the financial health of producers and rural communities, and it continues to build strong links between local producers and urban consumers — in Saskatchewan and beyond. It has built a network of relationships that connects many sector participants in working relationships that involve mutual learning and co-operation as well as competition.

**Figure 2.1**

### **The Saskatchewan Organic Directorate**

The Saskatchewan Organic Directorate (SOD) is a nonprofit member organization that works on behalf of producers and other stakeholders to strengthen Saskatchewan's organic food sector. Since its formation in 1998, SOD has worked on several initiatives to provide professional development and technical assistance to producers, processors, and consumers (Storey 2007). These initiatives include representing the organic sector on issues of policy, developing and sharing research information with members and the public, bringing together producers and other organic sector stakeholders, extension work, and providing education programming to the public (SOD website). SOD's activities are primarily funded through membership fees collected by the organization. Members include producers, processors, marketers, certifiers and consumers of organic food products.

### **Canadian Organic Growers**

Canadian Organic Growers (COG) is a national organization that represents agricultural producers, gardeners, processors, retailers, consumers, and supporters of organics across Canada. The Ontario-based organization connects local chapters (e.g., SOD) and affiliated organizations to the larger international organic community through its membership in the International Federation of Organic Agriculture Movements (IFOAM). COG's activities include publishing a quarterly magazine (*The Canadian Organic Grower*), developing educational materials, awarding educational scholarships, working with government and other groups on policy for the organic sector, and advocating and supporting other issues related to organics and sustainable farming (COG website).

*Producers*

According to data collected by the Agriculture Census, there were 3,555 certified organic farms in Canada in 2006. The majority — some 2,462 operations — were classified as certified field-crop operations. Statistics Canada indicated that half of these operations were located in Saskatchewan, followed by Ontario with 18.9 percent. Census data also showed that there were 640 farms making the transition to organic agriculture in 2006, with most of these reporting field crops as their primary product (Statistics Canada 2007).

According to data collected by Agriculture and Agri-Food Canada, there were 1,049 certified organic producers in Saskatchewan in 2003, down from 1,150 the year before (Macey 2004). Overall, the report indicated strong and continuous growth in producer numbers from 1992 to 2002 (see Table 2.1, below).

**Table 2.1:** Number of Certified Organic Producers in Saskatchewan, 1992–2003

<b>Year</b>	<b>Number of Organic Producers</b>
1992	190
1993	217
1994	233
1995	299
1996	365
1997	399
1998	423
1999	626
2000	1,024
2001	1,138
2002	1,150
2003	1,049

Meanwhile, Statistics Canada reported an overall decrease in the number of farms in Canada from 246,923 in 2001 to 229,373 in 2006. Saskatchewan witnessed the largest decline in farm numbers, from 50,598 in 2001 to 44,329 in 2006, a decrease of 12.6 percent in five years (Statistics Canada 2007). Statistics Canada also reported that the average age of all farmers continued to increase. In 2006, the average age of Canadian producers was 52.0 years, up from 49.9 years in 2001. In Saskatchewan, the average age of producers in 2006 was 52.6 years, up from 50.5 in 2001 (Statistics Canada 2007).

### *Certification Bodies*

The main function of organic certification bodies is to certify that producers and firms in the organic supply chain are conforming to organic standards (Ferguson et al. no. 5, 1).<sup>5</sup> As such, certification bodies (CBs) are critical to the information-embedding process of the organic supply chain. CBs provide third-party verification that producers, processors, and handlers have followed established organic practices, assuring consumers that the food products they purchase are indeed organic.

One of the first groups to provide certification in Saskatchewan was the Canadian Organic Producers Marketing Co-operative (or Girvin Co-op). The Girvin Co-op provided its members with an in-house certification process that was based on International Federation of Organic Agriculture Movements (IFOAM) standards.<sup>6</sup> However, the co-op was eventually pressured by sector stakeholders (i.e., buyers) to adopt a third-party certification system.<sup>7</sup> With a sector-wide move to third-party certification, a number of certification bodies have entered Saskatchewan, offering their services to both producers and processors. These groups include: the Organic Crop Improvement Association (OCIA), Pro-Cert Organic Systems (Pro-Cert), the Saskatchewan Organic Certification Association (SOCA), Quality Assurance International (QAI), Organic Producers Association of Manitoba Inc. (OPAM), and the Canadian Organic Certification Co-operative (COCC). (See Figure 2.2, overleaf, for a short profile of the COCC).

The OCIA is an organic certification agency based in Lincoln, Nebraska. It was founded in 1985 and has operated in Saskatchewan since the 1980s. It is a member-owned, nonprofit organization that provides members with certification services for crops, livestock, processing facilities, warehouses, importers/exporters, brokers/traders, community grower groups, and private labels. The OCIA has offices and regional chapters in the Americas, Europe, and Asia, and holds accreditation from the IFOAM. It also holds Registered Foreign Certification Status from Japan's Ministry of Agriculture, Forestry, and Fisheries (OCIA website).

Pro-Cert is a Saskatchewan-based organic certification agency founded in 1990. In 1999, Pro-Cert merged with the Organic Crop Producers and Processors (OCPP), located in Ontario. The newly merged organization, OCPP/Pro-Cert (OC/PRO), is a privately owned organization that provides organic certification services to clients. It holds accreditations from the Standards Council of Canada (SCC), the United States Department of Agriculture National Organic Program (USDA NOP), and the Conseil des Appellations Agroalimentaires du Québec (CAAQ) (OCPP/Pro-Cert Canada website).

**Figure 2.2****The Canadian Organic Certification Co-operative Ltd.<sup>§</sup>**

In 1992, a group of producers established the Canadian Organic Certification Co-operative (COCC) in order to develop an industry-recognized organic certification program that could provide affordable certification services to its members. The co-op's focus began to shift as Canada's organic sector struggled to develop a mandatory national standard, causing domestic and export markets to lose confidence in the programs of various Canadian certifying bodies. In order to address these problems, the COCC became the first certifying body in Canada to receive accreditation under the USDA's National Organic Program regime (in 2002), securing access to the US market for COCC members. In 2003, the co-op also negotiated a reciprocal agreement with Gesellschaft fur Ressourcenschutz mbH (GfRS) of Germany, to help secure access for its members to the European market.

More recently, the COCC has explored ways to become more active in the marketing of organics, as it has found that many of the co-op's members are having difficulty finding market opportunities and fair prices for their products. In spring 2006, the COCC negotiated a mutual support agreement with Quality Management Institute (QMI)\* to divest itself of its certification responsibilities, which has enabled the co-op to focus more on investigating and developing co-operative marketing options for its members.

In May 2006, the COCC and the Canadian Wheat Board (CWB) announced a pilot project to begin marketing wheat, durum, and barley through the CWB. Members of the COCC and other Wheat Board supporters expected that the single-desk marketer would generate greater returns to producers (Pratt 2007a). In July 2007, the CWB announced that it did not intend to go ahead with the organic pool, opting instead for a "dual market" approach that would give producers the choice to market through the Wheat Board or through existing grain buyers (Pratt 2007b, 7).<sup>†</sup>

As of early 2008, the COCC represented more than two hundred primary producers, handlers, and processors of organics in Saskatchewan and across western Canada. The COCC membership represents approximately 15 percent of the total number of organic producers in Saskatchewan. COCC producers farm approximately 28,000 hectares organically, which according to 2005 figures, is nearly 10 percent of Saskatchewan's total organic land base.

§ Information for this profile was contributed by members of the COCC.

\* QMI is a subsidiary of Canadian Standards Association.

† See "Changes to the CWB Regulations on the Sale of Organic Grains" in this chapter for further discussion.

QAI is an organic certification agency based in San Diego, California, which has provided organic certification to clients since 1989. QAI's organic certification program includes certification of land, post-harvest activities, distributors, private labels, producers, processors, restaurants, and retailers. QAI holds accreditation from the USDA NOP, IFOAM, and CAAQ, and has ISO 65 compliance from the USDA and Japan Agriculture Standards (JAS) compliance from the Japanese Ministry of Agriculture, Forestry, and Fisheries (QAI website).

SOCA, a Saskatchewan-based organic certifying body established in 1998, is a nonprofit corporation that provides organic certification services for its members. SOCA inspects and certifies grain and livestock producers, processors, retailers, handlers, and warehouse firms that deal with organic food products (SOCA website). In 2006, SOCA amalgamated with EcoCert Canada, a larger certification body based in Quebec and accredited by CAAQ. Increased costs associated with accreditation resulting from the introduction of Canada's new regulatory framework for organics (see National Organic Products Standards, below) were a key factor influencing SOCA's decision to partner with EcoCert (Pratt 2006a).

OPAM, a Manitoba-based not-for-profit co-operative, has been providing certification services for its members since 1998. It inspects and certifies grain, livestock, fruit and vegetable producers, brokers, processors, and other handlers of organic food products. OPAM holds accreditation from the USDA's NOP and the SCC (OPAM website).

### *The Canadian Wheat Board*

The Canadian Wheat Board (CWB) held the right, through an act of Parliament, to market all of the wheat grown in western Canada. As a result, "[a]ll producers receive the same "pooled" price for the same quality of wheat in a given crop year" (Ferguson et al. no. 6, 2). However, most organic wheat was not marketed through the CWB, but is marketed through grain-companies, brokers, producer-owned firms, or processors. Until recently, these sales required organic producers to complete a Producer Direct Sale (PDS).<sup>8</sup>

### *Marketing Firms*

There are several types of marketing firms operating in Saskatchewan, including producer-owned firms, brokers, and grain companies. These firms offer a variety of marketing options to organic grain, oilseed, pulse, and specialty crop producers in Saskatchewan and across western Canada.

*Producer-owned firms* (POFs) market grain on behalf of their producer members. POFs, typically, do not take ownership of the product but rather broker sales to buyers and processors in Canada and abroad. POFs source grain from a number of producer members and achieve technical economies of scale that allow them to reduce unit marketing costs (compared with the cost of marketing product on an individual basis). They may also realize some market economies of scale as a result of dealing in larger volumes and larger lots. This gives them some additional bargaining power compared to individual producers handling relatively small amounts of product. POFs take a variety of different organizational forms including new generation co-operatives, marketing co-operatives, and nonprofit corporations.

*Brokers* do not purchase the organic product from producers; rather, they receive a commission for marketing the commodity on the producer's behalf (Ferguson et al. no. 6, 4). In addition to contacting and negotiating with buyers, brokers may assist a producer in filling out the certification documentation necessary to complete the product sale.

*Grain companies* include a variety of different organizations that purchase producer grain and sell it in either domestic or export markets. This category includes small proprietor-operated grain companies as well as large investor-owned grain companies that are either publicly traded or privately owned. Small investor-owned grain companies may or may not operate their own grain-handling facilities and are more likely to market specialty or niche market commodities than their large investor-owned competitors. (For a description of the handling and marketing of an organic grain commodity by a small grain company or POF, see Figure 2.3, facing page).

Large investor-owned companies, typically, operate their own grain-handling facilities. These companies focus on marketing large quantities of organic grains, oilseeds or pulse crops in order to capture greater economies of scale. As Ferguson et al. indicated, producers who sell their grain to these companies were typically able to receive the CWB initial payment earlier than if they were to sell to another buyer (no. 6, 3).

### *Processors*

*Processors* are also a potential marketing option for organic producers. According to Ferguson et al., “[p]rocessors are companies that transform organic wheat from a raw commodity to intermediate products that are used by other processors and/or final products that are purchased by the end consumer” (no. 15, 5). Processors may purchase commodities from grain companies, brokers, POFs, or directly from producers. Processors operating in Saskatchewan include: Bioriginal Food and Science Corp., Dawn Food Products (Canada) Ltd., Infra-

**Figure 2.3****Product Handling and Distribution: A Marketer's Perspective**

The following is a description of the handling of a shipment of organic grain by a small grain company or POF. The description is adapted from an interview with a grain marketer.

"If I were shipping a producer's product down to the United States, it may come directly off the farm, which is a bin run. If the buyer were willing to take it that way, it would go from the farm to one of the border crossings. We would do the paper work on the shipment, and this is part of the service that we provide the farmer. There is a lot of paper work involved with crossing the border, more so than there used to be. And, when you have that all set up, it is not difficult to repeat. If you don't have it set up, it's a hassle.

"The process for a container sale to an overseas export market might go something like this. It might go to a cleaning facility where it is cleaned and stored in a bin, while I order a container from Saskatoon or Regina. Once the container reaches the plant it is loaded and sent back to Saskatoon or Regina, and then goes by rail to a port like Montreal or Vancouver, and from there it is shipped overseas.

"The process for a rail car also varies according to the buyer's demands. Rail cars are used to ship product into the United States or for export overseas. In this case, the producer loads the rail car(s) with grain that is either direct from the bin or is cleaned depending on the buyer's needs and expectations."\*

\* Interview transcript 36.

Ready Products Ltd., Darlaine Natural Foods, Lily and Rose Seed Processors, Schmidt Flour Inc., Prairie Flour Mills Ltd., Popowich Milling Corp., Poplar Valley Organic Farms Inc., Grainworks Ltd., and Schroeder Milling Inc.

Aside from these relatively small processors, there are many larger organic food processors located across the continent. Large food and agri-food companies own many of these processors. The following table provides a list of some organic brand names and their parent company.

**Table 2.2:** Organic Brand Name and Parent Company

<b>Brand Name(s)</b>	<b>Parent Company</b>
Kashi	Kellogg's
Small Planet Foods, Sunrise Cereal, Muir Glen, Cascadian Farm Brand	General Mills
Boca Brand	Kraft
Seeds of Change	Mars
Hain Celestial, Health Valley, Earth's Best Baby Food, Garden of Eatin	Heinz
Gilroy Foods	ConAgra Food Ingredients
Odwalla	Coca-Cola

Source: Canadian Wheat Board, "Marketing through the CWB," retrieved 7 January 2008 from <http://organic.usask.ca/presentations.htm>

### *Distributors*

Distributors transport and distribute organic foods to organic and natural food retailers across Canada and the United States. Examples of Canadian distributors of organics include Greenline Distributors, Pro Organics, Puresource, and Horizon Distributors. United Natural Foods Inc. and Tree of Life are major US-based distributors.

### *Food Retailers*

A growing number of retailers in Canada and Saskatchewan sell organic foods. In Saskatchewan, large retailers include Safeway, Superstore, Extra-Foods, Sobeys, Saskatoon Co-operative Association, Shoppers Drug Mart, and Wal-Mart. Large organic and natural food retailers operating in Canada's major cities include Capers Community Market,<sup>9</sup> Spud, Choices Markets, Whole Foods Market, and Planet Organic Markets. Small Saskatchewan retailers selling organics include Steep Hill Food Co-op, Dad's Nutrition Centre, Herbs and Health, Eat Healthy Foods, Nature's Best Foods, and Old Fashion Foods. Many producers of organic vegetables, fruits, grains, meats, and other commodities and value-added products market directly to customers at the farm gate and/or at farmers' markets located throughout the province.

The entrance of major food chains such as Safeway, Superstore, and Sobeys, and of diversified retailers such as Wal-Mart, has had a significant impact on the organic sector,

which for decades relied upon family-owned or co-operatively-owned organic and health food stores as the consumers' access point to organic products. The trend towards the commercial restructuring and industrialization of the organic retail sector was further highlighted in February 2007, when Whole Foods Markets made a bid to purchase its rival organic retailer, Wild Oats Markets. The US Federal Trade Commission (FTC) attempted to stop the takeover, arguing that the merger of the two companies would limit competition in the already concentrated organic and natural food sector (Moore 2007). Whole Foods and Wild Oats responded by arguing that their market competitors include traditional supermarkets, which over the years have increased their stocks of natural and organic foods. In August 2007, a Federal Court judge denied the FTC's request to stop the merger; following that decision, an Appeals Court judge also ruled in favour of the merger, putting an end to the FTC's challenge (Moore 2007). The merger has confirmed the position of Whole Foods Markets as the largest organic retailer in North America.

### **Some Developments Affecting Canada's Organic Supply Chain**

A number of developments continue to affect Canada's organic supply chain, in particular the supply chain for organic field crops in Saskatchewan and across the Prairies. Important issues and changes that are affecting the marketplace include:

- the new regulatory environment for Canada's organic sector
- changes in Canadian Wheat Board practices and requirements including the sale of organic grains
- growing consumer awareness and knowledge but also participation by less knowledgeable consumers in organic markets
- developing but still modest regional markets and processing capacity
- rising transportation costs
- higher value of the Canadian dollar with respect to US currency
- strong moves into organic food retailing by supermarket chains and by retailers not previously involved
- increased purchase of organic commodities by grocery product manufacturers producing organic versions of commercial foodstuffs, e.g., Oreo cookies

These developments often intersect in new and interesting ways. For instance, a lack of regional processors and value-added production has meant that producers and marketers

incur or absorb more of the costs of shipping their product to market. Moreover, the high value of the Canadian dollar relative to US currency makes Canada a less attractive place for establishing new processing capacity. For example, in May 2006, *The Western Producer* reported that Nature's Path Foods Inc. was no longer considering the Prairie Provinces as a potential site for a new plant (Pratt 2006d). The company had considered building a plant in the region to supply product to markets in eastern Canada and the United States, as a Prairie location would cut its transportation costs. However, the company decided that it was going to build its new plant somewhere in the US Midwest since the rising Canadian dollar eliminated many of the cost advantages of building in Canada. Some of the other considerations said to be advantages in favour of setting up in the US Midwest were: access to a larger labour force; better transportation networks; proximity to customers; and more attractive tax breaks and other financial incentives (Pratt 2006d).

While some of the changes and issues affecting Saskatchewan's organic industry may create barriers to investment and development in the sector, changes to the regulatory environment are eliminating trade and market barriers and opening up new opportunities for producers, marketers, and processors. Two of these regulatory changes are discussed here.

#### *National Organic Products Standards*

Canada's Organic Products Regulations became official 21 December 2006, when the regulations were published in the *Canada Gazette*, thus meeting the EU's 31 December 2006 deadline for exporting countries to establish an equivalent regulatory system. Many in the industry expected that the new regulations and accompanying organic logo and trademark would have a strong impact on the market for Canadian organics, boosting both domestic and international sales (Pratt 2006e). Canada's negotiation of equivalency agreements with the EU and the US reduces the ability of these trading partners to use the lack of uniform national organic standards as a trade barrier.

The Canadian Food Inspection Agency (CFIA) stated that it expected several certifiers to disappear as a result of Canada's new organic regulations. Prior to the regulations coming into effect, there were thirty certification bodies operating in Canada; the CFIA expected this number to likely fall to fourteen to sixteen (Pratt 2006a). This decline was expected as the number of agencies providing accreditation to certification bodies fell and the costs of receiving accreditation rose. According to an article in *The Western Producer*, "the Saskatchewan Organic Certification Association explored the idea of getting accreditation from the Stan-

dards Council of Canada, which will be one of the three remaining accreditation agencies, but the \$50,000 fee was too steep” (Pratt 2006a).

It was also anticipated that Canada’s new organic regulations would affect the sale of products originating from outside of Canada, although the expectation was that Canada and its trading partners would seek equivalency agreements that would enable the trade of organic products to continue.

#### *Changes to the CWB Regulations on the Sale of Organic Grains*

As of 1 August 2007, the Wheat Board introduced new regulations governing the sale of organic grains grown in western Canada. The new regulations provided organic producers with three options for marketing their organic wheat, durum, and barley (see Pratt 2007b). One of the new options allowed producers to market their own grain by making an up-front payment to the Wheat Board in the range of \$3 to \$15 per tonne depending on the products destination. The rates for different countries were set on 1 August 2007 and remained in effect for the entire 2007–08 crop year. This program was referred to as the organic fixed spread contract program.

The second option offered by the CWB was referred to as the CWB’s cash buying program. This program allowed producers to market their grain through the Wheat Board and to receive a cash price for their product (Pratt 2007b). The program replaced the Wheat Board’s organic wheat pool pilot program, which it discontinued as of 1 August 2007. In an article in *The Western Producer*, COCC’s Bill Rosher indicated that the CWB marketed an estimated two thousand tonnes of organic wheat through its pilot program in the 2006–07 crop year, with producers receiving a price in the range of \$8.00–8.50 per bushel (Pratt 2007a, 16).

In addition to these marketing programs, the Wheat Board also retained its producer direct sale or buyback program, despite its unpopularity with some producers and grain marketers. This option, which is referred to as a pool price plus negotiated premium, allowed producers “the option to deliver grain to an organic elevator and receive the CWB conventional pool price plus a privately negotiated organic premium” (CWB 2008a).

### **Summary**

Over the past thirty years, Saskatchewan’s organic field crop sector has grown from a handful of producers to many hundreds of producers spread across the province.

With added production and increasing demand from consumers, new marketing enterprises and opportunities have emerged. Moreover, as the organic food sector moves from a counterculture movement to a more mainstream commercial industry, the sector has had to adjust to changes in organic regulations and policies governing the marketing of organic grains. As international agri-business firms have moved into organics as another profitable specialty market, smaller organic producers and marketing firms have been seeking new ways to participate in the organic food supply chain and to stay competitive and viable in a sector that they have helped to grow and develop.

## Chapter Three

### ISSUES AND IDEAS RELEVANT TO CO-OPERATIVE MARKETING ORGANIZATIONS

**T**HE ORGANIC FOOD SECTOR is undergoing rapid transformations in terms of its make-up and activities. As demand for organic foods has grown, the organic and natural food retail co-ops that provided consumers with locally produced organic products throughout the 1970s, 1980s, and 1990s have been partially supplanted by large multinational food retailers that source organic foods from across North America and the world. On the supply side, large organic producers, such as Petaluma Poultry (California), Earthbound Farms (California), Cascadian Farm (Washington), and Horizon Organics (Colorado) have specialized in commodities such as vegetables, dairy, and meat, and have industrialized and integrated their production and processing capacity to meet the needs of the large multinational food retailers located in cities across North America.

At the same time, small organic producers continue to be exposed to market uncertainties and to the market power and opportunistic behaviour of firms further up the supply chain. One way that organic producers can improve their situation is by working together to build co-operative organizations that enable producers to share information, co-ordinate decision making, and realize economies of scale.

In this chapter we examine some of the marketing issues that restrict the ability of producers and producer-owned firms to make advances in the organic food sector. We then discuss how producer co-operation and integration can empower organic producers seeking a more secure position for themselves and their organizations in the organic food sector. We highlight some of the different types of agricultural co-operatives that producers can form to benefit themselves and their communities. The chapter concludes with a brief discussion of some of the control and decision-making problems that can affect co-operatives.

### Market Uncertainty and Opportunism

According to the literature on organic production and marketing, information asymmetries and incomplete information are important issues confronting producers, marketers, and processors in the organic sector (Ferguson et al. no. 10; see also Morone et al. 2006). While these issues are also present in the conventional agriculture sector, their effects are more pronounced in the organic sector, which lacks the institutional capacity and support to collect and disseminate marketing information. In part, this lack of institutional capacity is a result of the organic sector's history as a countercultural food and agriculture movement. Morgan and Murdoch argue that unlike the conventional agriculture sector, "[organics] was developed by ecologically committed practitioners, and later examined by the scientific establishment, with the result that the formal knowledge system lagged way behind organic practice" (2000, 167). For a combination of reasons, with the exception of certifications bodies, the organic sector has been somewhat slow to develop its own institutional capacity and organized production and marketing systems. As a result, organic producers are generally in a price-taker position, lacking both the resources and co-ordination to deal with the effects of incomplete information and information asymmetry that reinforce power differentials in the marketplace.

#### *Incomplete Information*

Incomplete information refers to the lack of accurate information that occurs as a result of the limitations and costs associated with gathering market information (i.e., an individual's or organization's limited capacity to gather and process information from the marketplace). This problem is exacerbated when an industry or sector lacks institutional capacity to gather and disseminate accurate price and market information. In a survey of organic firms operating in the province of Foggia (Italy), researchers found that 43.8 percent of firms reported that commercial knowledge (market related information) was difficult to acquire (Morone et al. 2006, 45). Moreover, of the seven knowledge groupings listed — agricultural, technical, juridical, managerial, technological, commercial, and organizational — commercial knowledge was the category of knowledge most often cited as difficult to acquire. A need for further institutional support to help firms acquire commercial or market knowledge was indicated by 43.8 percent of firms surveyed. In fact, more firms reported that commercial

knowledge required further institutional support than any other knowledge category.

A lack of good market information is also a problem for organic grain, oilseed, and pulse crop producers operating in Saskatchewan. As Ferguson et al. have suggested, “Producers consider a lack of information on markets and prices to be their biggest problem” (no. 20, 3). This lack of information on markets and prices makes producers more vulnerable to profit-taking by grain buyers, since buyers generally have better market information than producers (see discussion of information asymmetry below).

In the conventional market, there is more price information as there are price discovery mechanisms, e.g., public or private organizations, that collect and disseminate price and market information free of charge on a daily or weekly basis. A short-lived organic price discovery mechanism known as the Organic Product Information Service (OPIS) did operate in Saskatchewan for a couple of years beginning in the late 1990s. The OPIS price discovery mechanism is profiled in Figure 3.1, overleaf.

Ferguson et al. examined the issue of establishing an OPIS-like price discovery mechanism for producers, and found that the costs associated with obtaining improved market information was an important limiting factor in offering such a service. Their survey research suggested that producers were not willing to pay more than \$20 per year for such price information. They concluded that this was not a reasonable level of financial support for a viable price information service. Assuming a thousand producers willing to pay \$20 per year, and twenty marketers paying \$200 per year, the project would generate \$24,000 per year, which they indicated “is less than one market analyst’s annual salary and expenses” (no. 10, 4).

Problems related to incomplete price and market information extend throughout the organic sector. While processors and marketers generally have better market information than producers (indicative of information asymmetry), they also have difficulty estimating supplies of producers’ grain before harvest (Ferguson et al. no. 8, 6). In part, this problem of incomplete information results from a lack of institutional capacity, with most if not all sector participants and organizations having limited capability to collect accurate production information. As a result, producers and other groups in the supply chain receive mixed, incomplete, and inaccurate messages about price, supply, and market demand. For example, an article in *The Western Producer* (Pratt 2006e) indicated that a Canadian Organic Growers (COG) 2005 survey reported that, nationwide, there were 187,345 acres of organic wheat seeded in 2005. Meanwhile, Saskatchewan Crop Insurance data indicated that approximately 77,000 acres of organic wheat was grown in the province in 2005, and figuring in production

**Figure 3.1****The OPIS Story: Experiments with a Price Discovery Mechanism**

OPIS (Organic Product Information Service) was a project developed in the late 1990s by the Saskatchewan Research Council with a mandate to establish linkages between buyers and producers of organic commodities (Ferguson et al. no. 10, 1). Price and supply information was gathered from both buyers and producers and published in a bi-monthly or quarterly newsletter. The service included a newsletter that producers and buyers could subscribe to, which provided information about marketing and market trends, as well as market stories. It was, above all, a source of price information for farmers. It also sold market information to producers wanting to establish links with buyers, and information to buyers that wanted to establish contact with organic farmers that produced the commodities they were interested in buying. Some key challenges it faced were described as follows by an interviewee familiar with the project:

It [OPIS] provided quite a valuable service, I thought. [However], it was very difficult to make it run long-term simply because, ... farmers for so long a period had been getting this kind of information free, or had difficulty in that time recognizing the value of marketing information.\*

The OPIS project was discontinued after a couple of years of operation, but from 2003 to 2005, the Saskatchewan Research Council conducted and published annual price information surveys.

\* Interview transcript 35.

for other provinces, the total acreage was estimated to be about 90,000 acres. In other words, according to this article, it looks as if the COG survey reported the acreage of organic wheat to be about double the actual seeded acreage for that year.

*Information Asymmetry*

Information asymmetry occurs when one group of stakeholders (e.g., marketers and processors) obtains information that remains unknown or incomplete for another group of stakeholders (e.g., producers) that could well use that information. In the organic sector, information asymmetry between producers and buyers results from the superior information-gathering resources and expertise of marketers and processors, and the greater number of

transactions that they perform. Survey research conducted by Ferguson et al. indicated that information asymmetry is perceived by producers to be a significant problem. Ferguson et al. reported that producers rated the statements “Buyers have much better information on prices than I do” and “I do not get the best price possible when I sell” as the first and third most important marketing problems, respectively (no. 4, 4). Both of these problems are indicative of information asymmetry.

These survey results are supported by accounts of information asymmetry problems that have been reported elsewhere by Saskatchewan organic producers. For instance, organic producer Dwayne Woolhouse commented that grain buyers are underpaying producers and that buyers are preying on new entrants who are jumping at prices that are slightly higher than the conventional prices to which they are accustomed (Pratt 2006b). Woolhouse also indicated that a price discovery mechanism is needed so that producers can have a better idea of what is a reasonable price for their organic grains, oilseeds, and pulse crops.

These comments are echoed by other findings that suggest that information asymmetries between producers and buyers contribute to a lack of trust between producers and marketers/processors. Ferguson et al. indicated:

Some producers suggested that price data be collected and distributed for producers in order to alleviate the problem of poor price information. Some producers suggested that buyer trust could be improved by enforcing the bonding of buyers through the Canadian Grain Commission and publishing a list of “bad buyers” (no. 8, 5).

A lack of trust in grain buyers may also affect how producers respond to problems of information access and information asymmetry. As Ferguson et al. indicated, some producers are doubtful as to whether more widely available information on grain prices/marketing would ultimately benefit them. They worried that improved information would be used mainly to the advantage of marketers and processors. However, the authors indicated that marketers and processors already have superior information on supply and pricing. They also indicated that better information in the hands of processors and marketers can also benefit producers, since “[u]ncertainty of supply may discourage some buyers from sourcing from particular regions and may hinder the ability of buyers to establish long-term relationships with sellers in those regions” (no. 10, 5).

### **Producer Co-operation and Vertical Integration in the Organic Supply Chain**

One way that producers cope with market uncertainty, market power differentials, and opportunistic behaviour by other market players is by establishing co-operatively owned organizations that gather and share price and market information with producer members while also co-ordinating their marketing activities. Cook (1993) argues that there are five reasons that agricultural producers may form co-operatives or other types of collective action initiatives: avoiding negative consequences of market power/control; achieving economies of scale; reducing risk; providing missing services; and, achieving additional marketing margins.

Large commercial buyers frequently choose to deal with one or a few sizeable marketing agents rather than a large number of small producers. In doing so, they stand to reduce risk and transaction costs. As Morgan and Murdoch indicate, Sainsbury's, a large UK food retailer, has sought to alleviate technical and commercial knowledge deficits in the organic sector by creating its own supply chain. They state:

Like other supermarkets, Sainsbury's wants to minimize the number of suppliers with whom it deals, hence most organic growers market their produce to the multiples through a co-operative, the main ones being Somerset Organic Producers, Organic Growers West Wales, and Eastern Counties Co-op (Clunies-Ross 1990). The supermarkets' policy of minimizing transaction costs, together with their insistence on continuity of supply, means that farmers and growers have a vested interest in co-operating at the local level to ensure that they meet these procurement criteria (Morgan and Murdoch 2000, 169).

Marketing co-operatives like those in the UK are fast becoming an important part of an increasingly commercialized and concentrated organic sector. While the integration of co-operative organizations into the commercial-industrial organic sector is not without its critics, marketing co-operatives continue to be important tools for small and medium-sized organic producers who want to increase their market power and remain viable in an increasingly industrialized and vertically integrated organic food sector.

Co-operatives and related forms of producer ownership can assist producers to counter the negative effects of information asymmetries by improving their ability to acquire reliable price and market information. Another way that co-operatives and producer-owned firms operating in the organic food supply chain can benefit producers is through vertical integration. Vertical integration (e.g., through membership in an organic marketing or processing co-operative) can provide farmers with greater control over the marketing/commercialization of their farm products, and over the returns that can be derived from processing and distribution activities. Hobbs and Young (2000) suggest that closer vertical co-ordination may also create opportunities for co-operatives as intermediaries, “reducing negotiation costs between producers, input providers and processors.” Organic marketers and processors are interested in linking with groups that can provide them with the product quality and volumes that they need. With this in mind, Born (2005) has suggested that marketing agencies-in-common (MACs) organized by groups of co-operatives can help participating co-ops to co-ordinate their marketing and value-added activities. MACs can also provide individual co-ops with services that they could not otherwise afford.

In a related investigation, Marsden and Smith (2005) studied a producer-owned marketing organization operating in Wales and documented some of the benefits to farmers that this form of co-operation and co-ordination can provide. Key benefits that they identified are summarized here:

- *Information sharing:* The producer network created “frequent opportunities to meet and discuss individual as well as shared problems ... facilitat[ing] knowledge-building as well as problem-solving” (444).
- *Trusting relationships that promote co-operation:* The trust that producers established while working with one another as part of the network led to other forms of co-operation, including the sharing of resources.
- *Savings related to marketing costs:* With one entity “acting as the central marketing agent, producers are spared the cost and effort of having to plan and execute individual marketing programmes” (444).
- *Fair prices and a reliable market for farm products:* Consumers value the network’s transparency and affordable pricing. This can translate into greater and steadier demand for the products.

Merrett (1999) profiled the Heartland Organic Marketing Co-operative (HOMC) established in the early 1990s in Greenfield, Iowa. The co-op marketed organic soybeans to processors in Iowa and Japan and was seeking to further develop its capacity to do value-added

processing. Some important lessons from the HOMC experience are presented below:

- At the onset, the participating farmers planned to establish a new-generation co-operative with processing facilities. Although initial capital requirements prevented the small group of producer members from establishing a new processing facility, they were able to launch a marketing co-op using a member's existing cleaning and packaging facilities (5).
- While the co-op does not guarantee a fixed price, it does ensure that members receive a fairer price and a market for their commodities (6). It also pools soybeans from producers in four states, thereby spreading risk and potentially improving the price that a member may receive compared to selling his/her product individually.
- Entrepreneurial and technical skills were critical to the organization's development (10).
- The co-op's founders indicated that there are always opportunists looking for easy profits, however, over time, attrition leaves a core group of producers that share common values and commitment to the organization (10).

Research conducted by Ferguson et al. demonstrates that sales of organic products by producer-owned firms (POFs), such as co-operatives and some types of corporations, provide farmer members with higher returns than sales conducted through other kinds of marketing firms. However, their research also revealed that POFs were not necessarily as good as some other marketing firms when it came to providing prompt and assured payment. This study is discussed in more detail in Figure 3.2, facing page.

Co-operatives and other producer-owned firms are also attractive organizational forms for producers and other stakeholders that are interested in embedding their products with information important to organic consumers. Seyfang (2004) describes the case of a producer co-operative in England that links local organic farmers and market gardeners with urban consumers interested in purchasing locally grown organic foods. Seyfang (2004) indicated that consumers' support for the local producer co-operative illustrated "an intertwining set of objectives about rebuilding local economies, supporting ethical and environmentally-motivated businesses, community-building, developing trust and local relationships as well as delivering tasty, nutritious, and safe food" (2004, 16). In a related vein, Hobbs and Young (2000) have suggested that co-ops have the potential to have a greater role in monitoring and quality assurance in new kinds of commodity/value chains, such as those supplying organic and fair trade markets.

**Figure 3.2****Producer Returns from Different Types of Marketing Organizations**

Different forms of marketing organizations may provide different advantages to organic producers. Ferguson et al. conducted a survey to compare the costs and benefits to producers associated with marketing their product through organizations of various types. The researchers compared forty-six transactions through a CWB agent grain company, eleven involving a non-CWB agent grain company, eight transactions through a POF, and eleven transactions via direct marketing to a processor. The findings indicated that the POF provided “the highest price and greatest profit per tonne for producers, but the lowest profit per tonne for the marketer” (no. 6, 9). The POF prices were \$59/tonne higher when compared with the CWB agent-marketing option; non-agent prices and processor prices were \$17/tonne and \$15/tonne higher than CWB agent prices, respectively (no. 6, 6).

These findings lend support to survey research on producer perceptions (Ferguson et al. no. 2, 6) that indicates that producers that used a POF were more satisfied with their marketer than producers that used a non-POF marketer. Ferguson et al. found that POFs were more effective “in providing marketing information and advice to their producer members, high prices and fair marketer fees,” but that non-POF marketers were more effective than POFs in “providing prompt and assured payment” to producers (no. 20, 6). The transaction satisfaction results mentioned above must be considered in light of other details with respect to producer experience including the finding that “producers were less satisfied with grain company marketers, particularly grain companies that are smaller and are not handling agents of the CWB” (no. 2, 6).

**Types of Agricultural Co-operatives**

North Americans have a long history of using co-operatives as a means to support and develop rural economies and communities. A wide variety of agricultural co-operatives have developed to serve the needs of agricultural producers and other rural residents. In Saskatchewan this list would include, for example, marketing co-operatives, retail co-operatives, machinery co-ops, credit unions, and co-ops to provide services ranging from housing and health clinics, to daycare and cable TV. In his article “Co-operatives and Group Action,” Michael Cook (1993) developed a taxonomy of agricultural co-op organizational structures according to function, geography, and commodity-based characteristics. Five of the seven types of agricultural co-operatives that Cook (1993; 1995) described are discussed here. These

include: local co-operatives (Nourse I); multifunctional regional co-operatives (Nourse II); bargaining co-operatives (Sapiro I); marketing co-operatives (Sapiro II); and new generation co-operatives (Sapiro III).

It is important to note that Cook differentiated these five types of co-operatives into two groups — Nourse and Sapiro co-operatives respectively — named for each group’s seminal thinker and promoter. E.G. Nourse was an American co-op developer and economist, who believed that co-operatives are intended to help producers respond to market failures, primarily by acting as a “competitive yardstick” in the absence of real price competition among investor-owned firms. According to Torgerson et al., “[Nourse] emphasized local control that manifested itself in co-operatives organized to meet producers’ needs in a local community” (1998, 3); this corresponds particularly with the Nourse I, local co-operative, that Cook identified. Nourse also argued that these local co-operatives could achieve “scale economies by affiliating through purchasing or marketing federations that preserved a bottom-up structure rather than a more centralized, top-down one” (Torgerson et al. 1998, 3); hence, the Nourse II multifunctional regional co-operatives described by Cook.

Local co-operatives operate in a particular geographic territory and help producers to achieve economies of scale and scope in marketing a specific commodity or in acquiring agricultural inputs (Cook 1993; 1995). According to Cook, these co-operatives are established “to provide a missing service, to avoid monopoly power, to reduce risk, or to achieve economies of scale” (1993, 158; 1995, 1155). Multifunctional regional co-operatives provide a combination of services for producer members. Cook suggests that many of these co-operatives “integrate forward or backward beyond the first-handler or wholesaling levels,” and might be organizationally structured as a federated and/or centralized co-op (1993, 158; 1995, 1155–56). According to Cook, “Nourse-driven regional cooperatives were originally founded to achieve scale economies or to provide missing services in contrast to the “additional-margin”-oriented Sapiro regional commodity marketing co-operatives” (1993, 158–59).

Aaron Sapiro was an early co-operative developer who promoted the organization of co-ops in many parts of the United States and Canada. Sapiro advocated the use of “direct membership associations organized along commodity lines, using long-term membership contracts and professional management” (Torgerson et al. 1998, 2). Sapiro’s approach to co-op development included creating market share by gathering support from a large number of producers. This market share combined with grading and pooling techniques, enabled co-operatives to supply markets in a way that avoided the negative consequences of over-supply and dumping (Torgerson et al. 1998, 2–3).

Bargaining co-operatives benefit co-op members by enhancing margins and securing markets for their product (Cook 1993; 1995). These co-operatives have been popular particularly among fruit and vegetable producers, as their perishable products can make them the target of opportunistic behaviour on the part of buyers.

Marketing co-operatives co-ordinate producer sales of one or more commodities. These co-operatives benefit producer members as they bypass other intermediaries eager to make a profit on marketing activities, and enhance producer margins by providing farmers with more market power and capturing available economies of scale. According to Cook, “property rights and benefit distribution issues [make] management and governance functions ... more complex in a multiple commodity marketing cooperative” (1993, 158).

New generation co-operatives (NGCs) are producer-owned organizations that typically do value-added processing of agricultural commodities. The ownership structure of NGCs attempts to address market failure problems and property rights constraints that can affect co-operatives. This type of co-operative is discussed in more detail in Figure 3.3 (overleaf).

### **Property Rights Problems Potentially Affecting Co-operatives<sup>10</sup>**

The common ownership structure of the co-operative organization makes them susceptible to internal pressures as different stakeholders use the flexibility of the co-operative form to pursue different or multiple objectives. The problems that arise from these internal pressures are referred to in economics literature as property rights problems. There are three general types of property rights problems that can affect co-operatives. These include: principal-agent (or control) problems, free-rider problems, and influence-cost problems.

#### *Principal-Agent Problems*

Generally in co-operatives, the members acting through the board of directors hire one or more managers to co-ordinate the activities of the organization and to respond to changes and uncertainty in the external environment. Managers are hired for their management expertise and specialized knowledge, and co-op members (as owners) enable managers by delegating some decision-making power to them. This sort of relationship is known as an agency relationship. The principal (the owners) hires an agent (the co-ordinator/manager) to carry out tasks on his/her (or their) behalf. According to Eisenhardt, an agency problem arises

Figure 3.3

### **New Generation Co-operatives\***

Producers have used new generation co-ops (NGCs) as a means to do value-added processing of their bulk commodities. Fulton (2001) argues that the decision by producers to become involved in value-added production through an NGC results from an awareness of the changes on going in the agriculture sector — specialization, consolidation, vertical integration — and a belief that the traditional co-operative form was not capable of responding quickly enough to these changes.

Fulton (2001) and Cook (1995) both indicate that the NGC provides agricultural producers with a co-operative structure that addresses many of the property rights problems (e.g., free-rider and horizon problems) that have forced other co-operatives to exit or convert to an IOF. Some important differences between NGCs and traditional co-operatives include:

- the allocation of delivery rights based on equity investment
- the transferability of delivery rights (closed membership)
- the allowance for investment by nonmembers (via nonvoting, common shares)

In these ways, the property rights structure of the NGC mimics many of the characteristics of an IOF. However, the NGC structure is different from the IOF structure as it ensures that member-users own and control the organization because delivery shares can only be transferred to other producers. In addition, NGC members, like traditional co-op members, receive an economic benefit based on patronage and participate in the governance of the organization on the basis of one member, one vote.

However, the investment structure of NGCs also makes them more susceptible to IOF conversion. Members may be motivated by the opportunity to realize economic gain by selling the whole firm to an individual or corporation, especially if there are few producers that want to purchase member shares. Conversion pressures may also be created and/or aggravated by managers who want to assume more decision-making control and expand the capital-equity available to the organization for new business ventures. Some notable NGC-to-IOF conversions include Minnesota Corn Processors and North Dakota Pasta Growers.

\* The following excerpt is adapted from Jason Heit's (2007) MA thesis, "Organizational Choice and Behaviour: A Framework for Analyzing Decision-Making in Co-operative Organizations."

when “the principal and the agent have different goals and the principal cannot determine if the agent has behaved appropriately” (1989, 61).

In co-operative organizations, the principal-agent relationship is complicated by the presence of the organization’s board of directors, which acts as an intermediary between the member-owners (the principal) and the management (the agent). In this way, the board serves as an agent to the members, as it is elected by them to make decisions on their behalf and to ensure that management is fulfilling the members’ goals. Moreover, managers are agents of the board as they are delegated by the co-op’s directors to carry out the activities required to fulfill the goals of the membership. Once a principal-agent problem is active, managers may apply coercive pressures on the members and directors in order to achieve their goals.

Agency problems commonly arise in mature co-operatives. Murray (1983) indicated there is a tendency among co-operatives for the goals of the managers and the member-owners to diverge over time. Hind’s survey of ten agricultural co-operatives found that “significant differences between the farmer and manager groups exist, the farmer group aspires more towards farmer-focused goals than do the managers and the managers are more oriented towards the corporate-centred goals” (1999, 545). Her results suggest that late-stage (mature) co-operatives have the lowest level of goal coherence between the management and membership of the co-op, whereas data from the earliest stage co-operative shows “relatively little conflict between the manager and farmer groups” (1999, 546). In another study, Hind (1997) examined the historical annual reports of seven agricultural co-operatives and found in six of the seven cases that as co-operatives matured there was an increasing corporate focus/ orientation.

Two features that form the basis of agency problems are information asymmetry and the costliness of acquiring information. In an organization, information asymmetry occurs when management possesses information that the owner(s) or their representatives do not have. Information asymmetry can include the specialized training and knowledge of managers, and knowledge that comes from handling the day-to-day activities of the organization. The costliness of information also figures into the development of agency problems, as there are limits to the capacity of members to inform themselves of the all activities undertaken by management, or to hire further agents to monitor the activities of management and the board.

### *Free-Rider Problems*

Free-rider problems occur in co-operatives when members act in an individualistic way rather than in common. The property rights structure of the co-operatives can give rise to this problem. As Alchian and Demsetz indicate, “[p]ersons who own communal rights will tend to exercise these rights in ways that ignore the full consequences of their actions” (1973, 19). In this way, the common property rights structure of co-operatives makes these organizations susceptible to over-use and/or neglect from members and opportunistic behaviour from nonmembers. This is a problem since it can lead to depletion of the common resources or capital of the co-op and promote tensions on the association side of the organization.

Co-operatives can address the free-rider problem by building member loyalty and cohesion, or by increasing monitoring and enforcement (which might potentially expose the organization to influence-cost activities as discussed below). Alternatively, co-operatives may address the free-rider problem by more clearly defining the property rights structure of the organization, resulting in some decrease in common rights and the creation of private rights to access and use the resources of the co-op.

A common type of free-rider problem occurs when members shirk on making investments in the organization. Although this often occurs during the formation of a co-operative, this type of free-rider problem is an on-going issue for most co-operatives. As Knoeber and Baumer indicate, “Because patrons share in the return on cooperative equity capital whether or not they invest in the cooperative,... [there is a risk that] too little cooperative equity capital will be provided” (1983, 31). In part to address this problem, co-operatives retain patronage refunds in the form of member equity in the co-op.

### *Influence-Cost Problems*

Influence-cost problems generally arise when there is a divergence of organizational goals among a heterogeneous membership. According to Cook,

Influence activities arise in organizations when organizational decisions affect the distribution of wealth or other benefits among members or constituent groups of the organization and when in pursuit of their selfish interests, the affected individuals or groups attempt to influence the decision to their benefit (1995, 1157).

In short, influence costs arise when members use influence activities to coerce manage-

ment to focus the common resources of the co-operative on activities that benefit them personally.

Influence activities that members may use to coerce management include threatening to pull out significant equity capital from the co-op and fraternizing with directors, managers, and employees. These influence activities cause problems as they may restrict the ability of other members to access and use the resources of the co-operative in an equitable fashion. Influence-cost activities are a contributing factor in many co-op failures.

The portfolio problem is a type of influence-cost problem that can occur in co-operatives, as members look to adjust their investment portfolios to match their own risk preference. However, since co-op shares are not tradable “members will attempt to direct the activities of the co-op in a direction that better matches their own risk-return tradeoff” (Fulton 2001, 19).

The horizon problem is another type of influence-cost problem that occurs when older members or infrequent users of a co-op are averse to investing in assets or activities from which they will not realize any benefit. The problem occurs because residual rights to the co-op are not easily transferable since there is no mechanism for existing members to trade their equity-capital in the organization with potential members. In addition, the withdrawal of large sums of retained member equity (co-operative equity) from the co-operative makes it increasingly difficult for the organization to access the capital needed to make investments in maintaining and upgrading the enterprise. According to Cook, the horizon problem creates pressures on co-op directors and management to “increase the proportion of the co-operative’s cash flow devoted to current payments to members relative to investment, and ... accelerate equity redemptions at the expense of retained earnings” (1995, 1157).

To deal with the horizon problem, co-op management may consider looking for external sources of capital and/or converting the common property rights of the membership to private rights. In some cases, the management and board of the co-operative may decide to convert the co-op to an NGC or an investor-owned firm since these organizational forms provide for the trading of shares, with the share value reflecting the expected future earnings derived from long-term investments. This challenge and the associated need for additional capital were factors in the decision by the Saskatchewan Wheat Pool (SWP) to convert to being a co-operative with publicly traded shares in 1996.

### Co-operatives and Sustainable Rural Enterprise

While economists and others who study co-operatives highlight a number of potential problems associated with various co-operative business arrangements, these problems are not necessarily large compared to the advantages gained through co-operation, nor are they equally present in all contexts and in all kinds of co-operative enterprise. In his survey of scholarly writings about co-operatives, Nilsson (2001) recognizes the kinds of financial and managerial issues that can occur in co-operative businesses but suggests that co-operatives that have been developed to do things such as processing and marketing primary agricultural products are often successful.

In such situations, the members are generally knowledgeable about both the products and the processes involved. They know enough about processing and marketing primary agricultural products to provide effective oversight. They value the marketing services and premiums provided by the co-operative and focus more on their interests and roles as patron-users than on their interests as investor-owners. According to Nilsson (2001), the advantages of co-operative marketing can outweigh any of the disadvantages outlined by critics of co-operative business models. This may be especially true when members are dealing with markets that are dominated by only a few powerful buyers, or when they are in businesses (such as farming) where members have significant investments tied up in productive assets and products, and “when the quality of the products traded is difficult to assess” (Nilsson 2001, 343). All of these conditions likely apply to producers of organic field crops, as does one other mentioned by Nilsson as a factor in the success of some co-operatives — the sharing of a (more or less) common set of circumstances and philosophies that is conducive to collaboration and consensus-building.

Co-operatives are frequently seen as desirable organizational models for reasons that go beyond managerial or financial efficiency. In diverse contexts, co-operatives have proven themselves to be important tools for sustainable rural development — as ways to achieve enterprise viability but also to address other, broader societal concerns (see, for example, Birchall 2004; Gertler 2006). While not the primary focus of this paper, it is worthwhile to review some of the arguments for co-operative approaches to rural enterprise development.

Co-operatives can be useful for mobilizing and pooling capital needed for projects that

are beyond the capabilities of one household or a few local investors. Shared ownership helps to create wealth without accentuating economic inequalities, while democratic governance (based on one-member, one-vote) broadens participation in the control of economic activities. Co-ops simultaneously address important economic and social objectives that make them compatible with the principles of community economic development (see Zueli 2002).

In rural and small town Saskatchewan, it is not an accident that co-operatives play a relatively large role in the local/regional economy. Small businesses and multinational corporations may abandon or avoid such places given the chance for higher returns elsewhere, and given the relative narrowness of the economic calculus that they use in making location and investment decisions (Hammond Ketilson et al. 1998). Farmers, and others with local connections and attachments that are physical, economic, social, and cultural may be more motivated to invest in enterprises located in rural communities. They stand to gain not only as owners and users, but also through benefits that accrue in terms of local employment, the tax base, and property values. They can also contribute to the survival of lifestyles and places that mean something to them. As part of what is sometimes labeled the social economy, co-operatives can be vehicles for furthering such (shared and individual) interests. Co-operatives serve as a form of rooted and patient capital suited to development projects that capture opportunities and yield benefits that are less visible to, or tangible for, investors with no particular connection to specific places or communities (Gertler 2001).

In these and other ways, co-operatives often play a stabilizing role in local economies (Hammond Ketilson et al. 1998). They tend to have more “staying power” in several senses of this term. There is some evidence that, as start-up operations, co-operatives on average have greater longevity than typical new small or medium-sized businesses (Direction des Coopératives 1999). Corporations (investor-oriented firms) tend to be more geographically mobile than co-operatives and quicker to relocate in search of cost savings or improved market access. Generally, corporations are also more driven to pursue growth, and are more easily bought and sold, which can also lead to relocation to other jurisdictions (Mooney 2004).

In the eyes of investors, the mobility of corporations may be an advantage. From the perspective of local residents, however, the mobility of corporations is a potential threat to both community stability and to livelihoods. Co-operatives can reinforce and translate into practice ideas of co-operation, collaboration, and mutual assistance. Such values are consistent with rural ideals of neighborliness and local self-reliance, and putting them into practice helps to build the social cohesion and social capital that are the hallmarks of successful communities.

While co-operatives face important challenges, co-operative approaches to enterprise development also yield important advantages. In the context of a competitive global marketplace, these may be important both for the sustainability of processing and marketing co-ops, and for the viability of the farm operations owned by their members. Co-operatives generally attract positive attention from buyers and from consumers who wish to shop in a manner consistent with ethical/social concerns. It is not an accident that the fair trade movement typically sources its coffee, cocoa, sugar, or produce from producer co-operatives located in the Global South. These co-operatives are viewed as responsible and accountable suppliers that can further social as well as environmental and commercial goals that are important to movement participants (Allan and Gertler 2006). For the local farmers and agricultural workers involved, such co-operatives typically provide organizational resources including marketing capacity, technical support, and investments in local infrastructure and social programs (Raynolds et al. 2004).

### Summary

Organic producers have used co-operatives to help themselves to cope with marketing uncertainties — especially incomplete information and information asymmetries — and to improve their market influence and control. Co-operatives can also help organic producers to embed products with valued information and to make stronger links with consumers. While there are a number of different models and types of co-operatives that producers might adopt, the common property rights structure of co-operatives can make all these organizations susceptible to certain types of property rights problems. On the other hand, under certain conditions producers may achieve significant advantages through co-operative marketing, realizing gains as users of the co-op that outweigh most concerns with respect to financial and managerial complexities. In Chapter 4, we profile some of the co-operative and producer-owned marketing firms that have been developed in Saskatchewan; and in Chapter 5, we analyze and discuss some of the key findings from these profiles. Both of these chapters will apply some of the ideas and terminology introduced in this chapter.

## Chapter Four

### PROFILES OF ORGANIC CROP MARKETING AND PROCESSING ENTERPRISES IN SASKATCHEWAN

**T**HIS CHAPTER PROFILES a number of important organic marketing enterprises that have been developed in Saskatchewan. The profiles are presented in a chronological order beginning with an organization that was the province's first organic marketing co-operative, the Canadian Organic Producer Marketing Co-operative Ltd. Other profiles include: Marysburg Organic Producers Inc.; FarmGro Organic Foods Inc.; Farmer Direct Co-operative; and, Northwest Organic Community Mills Co-operative. This chapter also provides somewhat less detailed portraits of four additional organizations that have provided marketing services to Saskatchewan's organic marketing sector: Sunrise Foods International Inc., Mark Gimby Enterprises; the Wroxton Organic Farmers Co-op; and, the Prairie Red Fife Wheat Organic Growers Co-operative Ltd.

#### **Canadian Organic Producers Marketing Co-operative Ltd.**

The Canadian Organic Producers Marketing Co-operative Ltd. (COPMC or Girvin Co-op) was the first organic marketing co-operative in the province. In March 1982 a small group of organic producers established a steering committee to prepare the constitution, bylaws, membership contracts, certification standards, and budget needed to obtain a Charter under the Co-operative Act of the Province of Saskatchewan (Laird, press release 1983). The co-op received its Charter in April 1983 and held its Charter meeting on 19 July 1983 (Laird, personal communication 1983; Laird, press release 1983).

Within its first year of operation the co-op grew from nine to forty members; seizing upon this momentum, Alfred Moore, the co-op's president, proposed developing a central processing plant to mill organic grain to market in five and ten kilogram bags (*Leader-Post*

1984). In 1985, the co-operative purchased a vacant school in the town of Girvin, SK, and set up a processing facility at the location. The facility was used to clean members' grain for the export market and also had the capacity to mill organic grain and to bag organic flour.

Despite a growing membership, the co-operative struggled to pay down its debt. By 1991, the Girvin Co-op was bankrupt and its assets were sold.

### *Investment Structure*

At its start in 1983, the COPMC had approximately nine members and this grew to forty members within the first nine months of operation (*Leader-Post* 1984). Membership in the Girvin Co-op was open to organic producers across Saskatchewan and western Canada. Members paid a nominal membership fee in the range of \$25–50.

Soon after its formation, the co-op took steps to establish a processing plant where it could clean, mill, and bag member-produced organic grains. Despite the low membership fee, the co-op was able to raise money to make those important capital investments. By 1985, the co-op had raised enough capital to purchase the old school building in the town of Girvin for \$20,000. The co-op also raised capital to purchase a grain cleaner (including gravity table) and a stone mill, paying approximately \$50,000 for the grain cleaner and gravity table and roughly \$8,000 for the stone mill.<sup>11</sup>

Member-investors contributed a significant portion of the investment capital used to start the processing plant. A document provided to the research team indicated that share ownership was uneven: the number of shares owned by members ranged from three to a hundred (Membership List 1987–88). While these shares provided additional capital for the co-op, it is unclear whether members were also providing financing in the form of loans or donations. Additional investment capital in the form of repayable loans came from Credit Union Central.

Sweat equity contributions were also critical to the organization's start-up and growth. These contributions included, among other things, improvements made to the school and cleaning and processing equipment, exploring marketing options, establishing certification procedures, and operating the plant.

Following the initial wave of user-investors, the co-op's membership continued to grow fairly rapidly. However, by 1990, the co-operative was in quite serious economic trouble. In 1991, in a final attempt to save itself from bankruptcy, the co-op decided to raise its member-

ship fees to \$1,000 per share, as the co-op struggled to refinance its debt.<sup>12</sup> By that time, the co-op's approximately 180 members had invested some \$250,000 in the building and plant, together with immeasurable amounts of volunteer time and effort to support the activities of the co-op. However, the decision to raise the price of membership shares came too late to turn around the fortunes of the co-op.

### *Member/Producer Relations*

The Girvin Co-op, regarded as the first organic grain marketing co-operative in western Canada, was instrumental in bringing together organic producers from across the Prairie Provinces. Membership records for COPMC indicate that at the end of September 1986, the co-op had 66 members; by the end of 1987, it had 123 members; and, a year later it had 160 members (Membership List 1987–1988). Attracting media attention was an important part of the co-op's ability to grow its membership and to establish market contacts. One of the co-op's founders, Elmer Laird, promoted the co-op and issues relevant to organic producers in the co-op's many press releases on topics ranging from biological controls for grasshoppers to international food policy. Laird also used his Back to the Farm Research Foundation to conduct extension work, and to explore and promote issues relevant to organic producers. These efforts were significant in terms of defining and articulating some of the values with which these early organic producers identified. Furthermore, the co-operative also served as an identity-building tool for many organic producers, especially as there were few groups or associations for organic producers at that time.

According to Laird, the promotional and support activities of the Girvin Co-op both attracted and grew the membership, and in doing so (re)created a sense of community and shared identity among its members. The following quote from Laird captures this point:

People were phoning here for information, they wanted information about how to grow and market organic food. That's what I did for many years, was do extension work. I would come home every day to lunch at 11:30, and I had my lunch. And, the tradition is on the farm, you phone everybody at noon, so then I was free to answer the phone, until maybe to two o'clock probably. And, people would be phoning from Manitoba, Saskatchewan, and Alberta,... of course, they asked how to join, well, a lot of them just moved to join when we had \$25–\$50 membership. It wasn't hard to get them in; when it's a thousand it's a different story. And, we got a lot of publicity;

lots of publicity, it was the chemical lobby. What we were doing was sensational, I feel. And, the chemical lobby for some reason wasn't particularly pleased,... so, that's how it grew.

And, of course, we had meetings all of the time. And, the one thing that I think was important, was that the pioneers' spirit has until now, remained with the organic co-operative movement. And, what I mean by the pioneer spirit, I went to a rural school and you had all sorts of activities there — ball games and dances and card parties and everything — but when people weren't taking part in the game, the women would be gathered over in the corner here talking about how to provide a diet for the kids and their illnesses; this was before there was Medicare, of course. And the men were over here talking about how they grew their crops, or how they fed their cattle, or how they fed their horses, and that was the spirit of the pioneer. And outside of the organic movement [that] spirit is gone.<sup>13</sup>

As the first organic marketing co-op in Saskatchewan, the Girvin Co-op played an integral part in establishing linkages among the individuals and organizations that comprise Saskatchewan's organic sector. At that time, there were no other organizations or groups in the province that were specifically bringing organic producers together to discuss or address issues of production, marketing, and accreditation. The Girvin Co-op addressed some of the marketing and certification needs of producers, and provided links among producers that were useful for discussing production issues.

The sense of community that Laird refers to is also something that many other interviewees indicated has been a part of their experience in the organic sector. For some individuals that sense of community was realized through their involvement in an OCIA Chapter, or as a member of the COCC, or some other certification or marketing organization where producers could develop social networks, exchange information, and provide a supportive environment for each other. For organic producers, such organizations have been especially important since these needs generally are not met through interaction with neighbouring conventional farmers, or through participation in other kinds of agricultural organizations.

### *Producer Certification*

Organic certification was an important service that the Girvin Co-op provided its members. Given the lack of widely available or recognized certification services at that time, COPMC

developed its own certification standard modeled after European-based certification standards such as the one offered by the International Federation of Organic Agriculture Movements (IFOAM).

The co-op provided an in-house, peer-reviewed system with its own inspectors traveling to inspect the operations of producer members. According to one former member, the system was used for a number of years through the mid- and late-1980s, until the co-op yielded to outside pressure for third-party, independent inspection.<sup>14</sup>

### *Cleaning and Processing*

When it first started, the COPMC was not set up to process organic grains, oilseeds, or pulse crops. During this time the co-op provided its members with information on buyers and prices for their crops. As noted above, in 1985, the co-op purchased the old school building at the Village of Girvin for \$20,000. At the same time, the co-op raised enough capital to purchase a grain cleaner (including gravity table) and a stone mill. The co-op paid approximately \$50,000 for the grain cleaner and gravity table and \$8,000–\$9,000 for the stone mill.<sup>15</sup>

The grain cleaning equipment was used to clean grain to export standards. The plant was capable of cleaning about 150 bushels of grain an hour and was operated five days a week by the co-op.<sup>16</sup> According to Laird, the co-op had one employee dedicated to operating the cleaning plant; there was also one other employee who performed a variety of activities for the co-operative and likely also was able to operate the processing equipment. The mill was used to process organic grain into flour for sale in the local and larger Canadian market. The co-op bagged flour in five-kilogram bags.

### *Marketing*

The COPMC marketed member-grown organic grains, oilseeds, and pulse crops in both the domestic and export markets. The co-op's export sales consisted of container shipments of organic crops destined for international food markets. According to Laird, "a lot of [product] was shipped to Ireland, Holland, England, Denmark, Belgium, a lot was being marketed into the United States."<sup>17</sup> Domestic sales consisted primarily of container shipments of grain to processors (e.g., bakeries, distilleries); the co-op also marketed some organic flour directly to consumers and to retailers in the province.

Unlike organic marketing co-operatives and businesses in operation today, the COPMC

did not market organic feed grains. At that time, co-op members sold their feed grain in the conventional market at the local elevator since the market for organic feed grain was very limited and difficult to access. One might assume that the absence of an organic feed market for producer grain would encourage producer members to blend grain in order to sell more grain into the food market. Interestingly, the co-op did not generally pool or blend member grain. As Laird indicates, “[there was] not that much pooling sales, usually it was you sent one person’s sample, one person’s grain, sort of in rotation.... No, I can’t ever remember putting two people’s grain in one container.”<sup>18</sup>

Two important factors that determined whether a member’s grain could be sold in the food market were the grain sample’s falling number<sup>19</sup> and protein level; if either or both of these numbers were low, the grain was sold in the conventional market as feed grain. One can only speculate whether the co-op would have had the resources or the blending capacity in any given crop year to sell as food grains some of what ended up as feed grain. The existence of a market for organic feed grains would likely have made a considerable difference to the economics of the participating farming operations as well.

Information gathered from interview respondents suggests that the Girvin Co-op did not employ a full-time marketer to sell its members’ organic grains; rather, a sales and administration committee consisting of member volunteers performed the marketing function on behalf of co-op members. COPMC press releases indicate that the co-op had an Administration and Sales Committee consisting of three members: Girvin Co-op President Alfred Moore; Vice President Allan Dietrich; and Treasurer Doreen Reitenbach. It is possible that the lack of a dedicated marketing agent limited the ability of the co-operative to identify new marketing opportunities for producer members’ grains, oilseeds, and pulse crops.

#### *Issues Potentially Contributing to Girvin’s Bankruptcy*

A critical factor in the financial failure of the Girvin Co-op was its inability to acquire sufficient capital to finance the operations of the organization. The co-op’s low share price likely contributed to this lack of capital. The co-op’s nominal membership share price limited its ability to make capital investments and pay down its debt. According to Laird, the co-op depleted its finances to the point that it had no operating money. Despite a last ditch effort to raise its membership fees to \$1,000, the co-op ultimately had no choice but to shut down its operations.

Furthermore, since most members had relatively small investments in the co-operative, they may have had less incentive to support the organization during hard times. While the research team did not investigate this issue directly with respect to the Girvin Co-op, the literature suggests that a free-rider problem can occur when some members contribute little of the investment capital needed to finance the organization. Members that make only a nominal investment may reap the benefits of co-operative membership without proportionately sharing in the risk.

Some co-operatives are also burdened by influence-cost problems where members engage in activities that shift how management or other decision-makers allocate rights to use or access the resources or services of the co-op. Members who have greater economic, political, or social influence may use this power to pressure managers or the board to focus organizational resources on activities that benefit them personally. It was suggested to the research team that there was a perception that some members were being favoured over others. One interviewee indicated that while there were efforts to try and change things, “some of the damage had been done as far as the reputation, at least in the eye of the participant co-op members.”<sup>20</sup>

Another factor that may have contributed to the co-op’s lack of finance capital was the relationship between the co-operative and its lenders. Laird suggests that at that time, lending institutions were skeptical and timid about making loans to organic marketing firms such as the Girvin Co-op. According to some other sources, it is also possible that the co-op could have found more willing lenders, but, for various reasons, it elected to rely on one local co-operative financial institution.

Lack of capacity on the marketing side of the co-operative was also a problem for the co-op. As discussed above, the co-op did not have a dedicated marketing agent; this responsibility was left to board members and to other volunteers.<sup>21</sup> While such an arrangement provided savings in terms of payroll costs, it likely diminished the potential for the co-op to further develop and expand its markets, or to make optimal use of its processing plant capacity. Marketing by a committee that is working on a voluntary and part-time basis is also likely to introduce some inefficiencies: there may be some slippage in establishing and maintaining contacts with buyers, and in co-ordinating the logistics and administration activities associated with each sale. It can also increase the risk that the members most involved in marketing may use — or may be suspected of using — their position and the knowledge that they acquire for personal benefit.

An issue that directly affected the ability of the co-operative to market its products effectively was lack of access to rail transport. Respondents indicated that the Girvin location did not have direct access to a rail line that would enable members to load producer cars on site. As Laird reported, “There was no way to load containers. Anything that went to the States went by truck. I can’t ever remember shipping a carload of anything out of Girvin in a box car or a tank car.”<sup>22</sup>

Some other issues identified as potential problems were that the organization was overextended in terms of the services that it was trying to offer to its members, and that the co-op did not have the resources to effectively provide marketing and certification services to members across three or more provinces. It was also indicated that the group lost some of its most important contracts with European buyers, a situation that highlights the risks associated with reliance on a few major customers.<sup>23</sup> Finally, it was suggested that the co-op’s efforts at marketing its value-added products to travellers using the highway between Regina and Saskatoon, and to people in Davidson and the surrounding area, were probably not as profitable as the co-op had envisaged.<sup>24, 25</sup>

### **Marysburg Organic Producers Inc.**

In 1993, seven organic producers farming around Humboldt, Saskatchewan, started Marysburg Organic Producers to facilitate the marketing of their organic farm commodities. The nonprofit corporation grew to include approximately forty-six producer members from across the province. In 2001, the group generated receipts of \$4.3 million for its organic cereals, oilseeds, pulses, and other crops (Pratt 2005). However, following several years of crop failure as a result of drought and early frost, the members decided to shut the marketing group down in late 2005. The closure also reflected a changing relationship with the marketing agent who had served the group since its inception.

#### *Governance Structure*

While Marysburg Organic Producers was incorporated as a nonprofit corporation, in many ways it operated like a co-operative. In fact, some former members who were interviewed occasionally referred to the organization as a co-operative. This was reflected also in the organization’s investment and governance structure. According to information collected in field interviews, the group had a board of directors that was elected by the producer members. The group also adopted a policy of one member, one vote.<sup>26</sup>

### *Investment Structure*

In the early 1990s, a small group of producers from OCIA Chapter Five (located in the community of Marysburg) met to discuss the lack of marketing options for their organic grains, oilseeds, and pulse crops. From these discussions, the idea to establish an organic marketing group was born. In 1993, Marysburg Organic Producers was incorporated as a not-for-profit corporation.<sup>27</sup> The original seven members each made an initial contribution of \$200 to cover the costs of incorporation (Pratt 2002a).

In the years that followed, the group grew to include approximately forty-six producer members, and new members were also asked to pay a \$200 membership fee to join the marketing group. Despite interest from the organic community, the group's incorporation as a not-for-profit corporation prevented it from growing beyond fifty members.

### *Member/Producer Relations*

Marysburg marketed commodities produced by its member-shareholders, but also organic commodities produced by nonmembers. Both members and nonmembers were charged marketing fees, although the fees were somewhat higher for nonmembers. The fees were generally less than 5 percent of the value of the sale, with the money being used to pay the salaries of the treasurer and marketing manager, and up-front costs for packaging and transportation that were later reimbursed by the buyer (Pratt 2002a).

### *Cleaning and Processing*

Marysburg Organic Producers did not own or operate grain cleaning or processing equipment. Instead, some of the producer members who already owned and operated their own grain cleaning plants provided that service at a reasonable cost to other Marysburg members. A former Marysburg member indicated that there were approximately ten producer members who had cleaning plants and who would load containers.<sup>28</sup> The large number of producers with grain cleaning capacity dispersed across the province helped the group to minimize freight handling charges as the product went from producer to cleaner and then to a rail container-loading site in either Saskatoon or Regina. The group's marketing agent had the job of co-ordinating this activity in addition to finding buyers and arranging sales.

For Marysburg Organic Producers, one of the benefits of this sort of arrangement was that the costs associated with operating such a broad network of plants (including certifica-

tion costs, capital costs, and maintenance) were not borne by the organization. The members who owned the cleaning equipment along with the associated building covered these costs. Moreover, they were generally able to sell their cleaning services to other customers whose business helped to valorize the capital investment.

### *Marketing*

The primary activity of Marysburg Organic Producers was marketing the organic field crops produced by its members. The group marketed cereals, oilseeds, pulses, and specialty crops to buyers in Canada, the United States, Europe, and Japan (Pratt 2005).<sup>29</sup> It is important to note that the group did not pool prices for contracts. The prices that producer members were offered on a particular sale were based on that individual sale.

The organization's marketing agent was Glen Neufeld, an organic producer from Drake, Saskatchewan, who was also one of the early members. During the startup phase, Neufeld marketed the group's grain on a voluntary basis from an office on his farm. In the years that followed, with sales growing, the enterprise began to provide Neufeld with compensation for his marketing efforts. Initially, the payment was to cover direct expenses associated with marketing activities undertaken on behalf of the group. Eventually the group began to provide Neufeld with a commission on sales in the range of one to 2 percent per sale. It is important to note that, despite some successful years, the group did not provide any form of salary or wage to its marketing agent.

Establishing contacts with buyers, finding new markets, and co-ordinating sales activities and delivery of products were significant parts of the marketing agent's work. As interviewees indicated, contacts for buyers came from a variety of sources. Members who were contacted directly by a potential buyer typically referred the prospective customer to the marketing agent to negotiate and co-ordinate a sale. The following quote describes how this worked:

The guys from the producer group,... they were very loyal. If they got a call from a buyer, they would say, "Well,... just go talk to Glen." And so that is what helped keep Marysburg strong because ... [the members] ... were very supportive.<sup>30</sup>

The interviewee went on to indicate that Neufeld would contact the producer who referred the buyer to him, giving that producer the opportunity to make a sale. If the particular group member did not have that product, or the quality of product that the buyer required, then other members would be given the opportunity to make a sale.

Members also provided the marketing agent with the contacts they made at OCIA meetings and through conferences, especially during the group's startup period. As an early member of the group indicated:

I went to meetings of our certification body, like annual meetings, and I got to meet buyers, and you met buyers from all over — in the States.... And whatever contacts I had made at those meetings, I gave to him [Neufeld].<sup>31</sup>

Statements made by interviewees suggest that the group's marketing agent did not do a lot of traveling to conferences or events to meet new buyers and make contacts; rather the group relied on their network of existing contacts and on new contacts made by various members. Moreover, as one former Marysburg member suggested, conferencing was not necessarily a key activity when it came to developing contacts with buyers. "If you're in a position for a while, then you just get a repertoire of companies that want to deal with organic [products]. You know who they are. It becomes a small world."<sup>32</sup> Another member of the marketing group indicated that conferencing was not so critical a market development activity for the group given their use of fax and Internet to connect with potential buyers.<sup>33</sup>

As the group's marketing agent, Neufeld co-ordinated many of the logistical activities related to sales: specifically, the selection of member product as well as blending and cleaning. The ability of the Marysburg group to draw product from a large number of producers located across the province was one of its strengths: geographic dispersion was an advantage when it came to dealing with weather-related risks and made it easier to meet buyers' expectations with respect to both quality and volume. This risk management strategy and their reliability as suppliers ultimately benefited both the members and their buyers. This system was effective because the marketing agent had the ability to select the best quality product from the samples provided by the group's members. Although the marketing agent's authority to decide which producer's grain would be used to fill a contract would sometimes create tensions among the members, this discretionary power was necessary in order for the producer group to maintain a strongly positive reputation with its customers, and to ensure that claims did not come back to the group from dissatisfied buyers.

Marysburg's ability to draw product from across the province also provided blending power to the producer group. Blending grain required more co-ordination by the marketing agent and a good deal of co-operation among producer members. As one member indicated,

... we were able to blend product and work with each other when one person didn't quite have the quality, the other would. And, it would go

back and forth from year to year. So we would bring product into a cleaning plant and blend it and make it work. So we were able to help each other in that way.<sup>34</sup>

As mentioned earlier, the producer group did not operate its own cleaning and processing facilities; rather, the group relied on producer members who operated their own grain cleaning equipment. To work well, this arrangement required a high degree of co-ordination between the marketing agent and the group's network of grain cleaners, and a strong commitment to quality among the various grain handlers. As one interviewee indicated, the group took the approach that if the contract called for cleaning wheat to 99 percent purity, the cleaners would clean it to 99.9 percent purity.<sup>35</sup> This kind of dedication to quality was especially important when dealing with certain overseas markets that had high expectations with respect to product quality (e.g., grade and protein characteristics). As one interviewee commented:

The same buyers usually came back, yeah. But whether they bought or not was totally dependent on the quality. If you couldn't supply a certain protein, like say if you were selling wheat, it had to be like a milling quality, a one or two wheat. Some of them wanted a number one even, and it had to have a certain [protein], like 13.5. The Japanese market even wanted 15, and if you had it, ... if you had that protein and if your cleaning job was done decently, then they were good. You would load a container, and then once you sent all the paperwork for that container to them, that was after you had done it, the money would be transferred from their account to your account that same day. So you were paid before they even saw the grain. They were very particular about what you would send them, but they were also very up front, ... they would pay.<sup>36</sup>

Other export markets were not necessarily as demanding, and were often a destination for product that was of lower grade or protein level, or that was destined to be used as feed grain.

Around 1997, Neufeld incorporated his own marketing firm, Sunrise Foods International, in order to market nonmember products and specialty products such as flax meal that Marysburg members did not or could not produce. Despite the formation of Sunrise Foods, Neufeld continued to market for the Marysburg Organic Producers, maintaining separate accounts for each organization. However, in late 2005, after twelve years of operation, a combination of circumstances led the producer group to decide close down its operation.

*Issues Contributing to Marysburg's Shutdown*

According to an article in *The Western Producer*, “a confluence of events, including poor harvests, the appreciating Canadian dollar and competition from new marketing ventures forced the directors to shut down the company before it ran into problems servicing debt” (Pratt 2005). While these events and concerns all likely contributed to the decision to shut down the marketing group, there were also issues related to the group’s organizational model and business strategy that probably limited its ability to grow and develop.

*Choice of Organizational Form* — The decision by the Marysburg group to organize as a nonprofit corporation limited the enterprise to a maximum of fifty members. The decision to form a nonprofit corporation was taken, in part, to minimize the costs associated with incorporation. Later, the group decided to continue operating as a nonprofit corporation since, as a former director indicated, the group was not interested in incurring the costs associated with re-incorporating as another type of business entity. Over time, this decision limited the ability of the group to bring in new members and to raise equity capital.

The membership limitations under this arrangement likely contributed to the use of nonmember production to meet volume and/or quality requirements on contracts. Reliance on nonmember production to fill contracts suggests a free-rider problem was also present: nonmembers could use the services of the marketing group while avoiding the costs associated with membership. Interestingly, this may help to explain why the marketing group did not reach its membership cap of fifty members. Since member supply could not always meet the quality or volume demands of buyers, and given the organization’s reluctance to incorporate as a for-profit corporation or producer-owned marketing co-operative, it is possible that the group realized that it had approached a supply/production threshold where the addition of a few new members would not meet its supply challenges, so that increasing the membership by one or two was a moot point. As well, it is possible that there were signals (either implicit or explicit) to nonmembers that the group’s requirement for product overshadowed its desire to grow its membership.

*Employee Relations* — While the decision of the marketing agent to form his own marketing business may have been a factor in the decision taken by the group members to close down the operation (Pratt 2005), it is also important to consider the organizational factors that may have contributed to Neufeld’s decision. One contributing factor may have been the remuneration policies followed by Marysburg Organic Producers. Interviewees indicated that initially the marketing and bookkeeping activities were performed on a volunteer basis.

Eventually both positions did receive some compensation, with the marketing agent receiving a commission in the neighbourhood of 2 percent per sale. Regardless of whether this rate was in line with the commissions offered by other marketing firms, organizational limitations on the number of producer members combined with fluctuations in production and prices limited the potential earnings of the marketer. When bad crop years occurred, lower volumes had a direct and negative influence on the marketing agent's earnings.

As one former member indicated,

Some places ... they went through how many years of drought and they got like virtually nothing. Here we didn't dry out; we froze. The one year we got frost on the third of August. We had garbage for a crop that year. You see that was when we sold grain to the feed market, instead of getting \$8 or \$10 a bushel for our grain we were getting \$3 or \$4. So Glen's percentage off \$3 grain, it doesn't take a rocket scientist to figure out that he was in trouble.<sup>37</sup>

Clearly, it is important for marketing organizations to find ways to at least partially protect their agents from production risk. Producers accept the risks associated with production and have certain assurances or supports in times of crop failure. Generally, such risk-mitigating arrangements are not available to individuals involved in marketing agricultural commodities.

One potential solution to this problem was for Neufeld to form his own business so as to generate more sales and thereby supplement his income. Another potential solution would have been for the organization to provide Neufeld with a salary to offset lost commission resulting from poor crops. Although a group such as this may not have been able to pay a full-time, professional salary, some combination of salary and commission would likely be an appropriate strategy to reduce the likelihood of a producer-owned marketing organization losing its marketing agent.

*Tolerance for Risk* — An important issue that affected the marketing activities of the organization was the group's tolerance for risk. While the individual producers were willing to assume the various risks associated with producing and marketing organic products, they were reluctant to have their organization take on any of that risk. Related to this, the Marysburg group did not purchase export development insurance from Export Development Canada. As one member indicated, "[the members] would take the risk on their own product, and we always had stated from the beginning, if the buyer for some reason did not pay,

the producer would not get paid.”<sup>38</sup> The members’ reluctance to collectively underwrite any risks through their organization likely limited the ability of the marketing agent to grow sales by engaging in trades where the organization could have safely assumed some of the marketing risk.

Near to the time that it wound up its operations, the group did take a direct loss when a company in the United States went bankrupt. Although the individual producers absorbed the financial loss related to nonpayment for their product, the group had paid the freight on the product and was awaiting payment on some previous invoices when the company went bankrupt. As a result, the producer group absorbed the loss on the approximately \$70,000 that it was owed.

### **Sunrise Foods International Inc.**

Sunrise Foods International is a privately owned grain marketing company that specializes in the import and export of organic grains, oilseeds, and pulse crops, as well as other niche market commodities. Glen and Anne Neufeld incorporated the business in 1997. At that time, the couple operated the business out of their home, while Glen continued to perform his duties as the marketing agent for Marysburg Organic Producers Inc. During its first years, Sunrise focused on marketing niche market products that were not being produced by the organic producer group (e.g., spelt and flax meal).

In 2001, the Neufelds made the decision to move the business out of their home and to set-up an office in Saskatoon. At the time that interviews were conducted for the present report, the company employed seven people and was marketing product sourced from farmers located across the Prairie Provinces. Although Sunrise was not operating its own cleaning and processing facilities, it worked with some eight different processing facilities across Saskatchewan.<sup>39</sup> The company marketed primarily organic products, including hard red spring wheat, durum, hulless barley, lentils, flaxseed, green and yellow peas, brown and yellow mustard, malting barley, and feed barley. According to the company’s website, it also marketed specialty crops such as beans, chickpeas, coriander, millet, and triticale (Sunrise Foods). Its overseas customers were located in the United States, Japan, Holland, Germany, Italy, France, Switzerland, and England.<sup>40</sup>

### **Mark Gimby Enterprises**

Mark Gimby, a former OCIA organic inspector, is contracted with Paterson Grain and its subsidiaries, Growers International Organic Sales Inc. and NutraSun Foods Inc., to act as the company's exclusive buyer of organic grains in western Canada. It is Gimby's responsibility to contact buyers and co-ordinate sales (e.g., handling the logistics and certification trail for the sale). Paterson Grain assumes responsibility for the product once it is delivered to one of its six elevators in the southern part of Saskatchewan or to the company's NutraSun flour mill in Regina.

Gimby purchases wheat, oats, barley, durum, flax, peas, buckwheat, and spelt, among others, but wheat, durum, and flax have been the primary commodities that he has handled for Paterson Grain. The company deals mainly with bulk grains that are loaded in containers and shipped by rail, most frequently to international markets.

According to Gimby, producers gain several advantages in dealing with larger grain firms, including professionalism and security. As he indicated, "What a large organization like the one that I am contracted with comes with ... is ... world-class expertise and immediate payment."<sup>41</sup>

### **FarmGro Organic Foods Inc.**

FarmGro Organic Foods Inc. was a short-lived, investor-owned, organic grain processing and marketing company that operated a large facility outside of Regina. The company was the brainchild of Bob Balfour, an organic farmer and businessman, from Riceton, Saskatchewan. FarmGro's co-founder was Fred Soofi, a Regina restaurant owner (Raine 2000). To attract investment capital and to secure loan financing for the processing facility, the founders used a private investment group known as WestCan, which Balfour controlled (Briere 2000). The enterprise secured capital investments from both the federal and provincial governments, from foreign investors and local business people, and from Saskatchewan organic producers. This funding allowed it to develop an \$11.3 million processing facility (White 1999).

FarmGro began processing grain at its facility in 2000. At that time, the plant was celebrated as "North America's largest organic small grains processing facility..." (Raine 2000).

The facility was capable of milling sixteen thousand tonnes of wheat and durum, as well as cleaning eighteen thousand tonnes of grains and other field crops annually (Pratt 2003e).

Once in operation, FarmGro focused on processing and marketing organic grain for export to the United States, Europe, and Asia. However, after nearly three years of operation, the company was burdened by a heavy debt load that, according to Keith Brown, the former chair of FarmGro, made it difficult for the company to keep up with the interest payments (Pratt 2003c). FarmGro was placed in receivership in December 2002. The following sections elaborate on investment structure, relations with producers, and operations, as well as issues that may have contributed to the company's failure and the repercussions this had for producers and the market.

#### *Investment Structure*

The Saskatchewan government made significant capital investments in FarmGro through the Crown Investment Corporation (CIC) and the Saskatchewan Government Growth Fund (SGGF). It was reported that the CIC held a \$1.75 million equity position and also provided a \$3.15 million loan when the plant was built in 1999. It invested another \$500,000 in August 2000 in the form of preferred shares, and in February 2002, agreed to back a \$2 million operating loan that the company had with the Royal Bank (Briere 2003; 2002). The SGGF provided FarmGro with a loan for \$2.5 million (Pratt 2003c).

Foreign investment included more than \$1 million from Nichimen, a Japanese trading company, and more than \$300,000 from Prokop, a Czech milling machinery manufacturer (White 1999). Other investors included the Farm Credit Corporation, the federal government's Western Economic Diversification, the Royal Bank, the Canadian Imperial Bank of Commerce, and a federal-provincial water-based development program (White 1999).

In February 2000, FarmGro issued a prospectus announcing its intention to sell 1 million class D preferred shares to Saskatchewan residents by 30 June 2000. These class D shares were valued at \$2 each, with the minimum purchase set at \$5,000 and the maximum set at \$50,000 (Briere 2000).

#### *Producer Relations*

While the province and foreign investors held the dominant ownership positions in FarmGro, organic producers from across Saskatchewan also had significant equity in the

company. Many organic producers purchased class D preferred shares when they were first made available to the public. As Balfour told *The Western Producer*, producers who purchased class D shares would receive preferred delivery rights as opposed to guaranteed delivery rights (Briere 2000). This arrangement gave FarmGro more control over the volume of grain being delivered to the plant and also helped to prevent producers from off-loading poor quality grain onto the company. However, FarmGro's ownership structure proved to be problematic for producer-investors. Since class D shareholders were not residual claimants/secured investors, the fifty-seven organic producers who had purchased class D shares lost their equity investment when the company went into receivership (Pratt 2003b).

FarmGro operated as a CWB agent grain company, which allowed producers to receive their CWB initial payment upon delivery. FarmGro also carried a \$200,000 bond with the Canadian Grain Commission. As a result, when the company went into receivership, it was able to pay the twenty-seven producers who were owed payment (totaling \$162,496) for their grain (Briere 2003).

#### *Processing and Marketing*

As mentioned, the FarmGro facility had a milling capacity of sixteen thousand tonnes per year and a cleaning capacity of eighteen thousand tonnes per year. Spring wheat flour and semolina were the two most important products that the mill produced. At its inception, it was anticipated that FarmGro would access markets in North America, Europe, and Asia. In fact, one of the major investors in FarmGro was Nichimen, a Japanese commodities trading company that was expected to assist FarmGro in marketing to Japan and the rest of Asia (Briere 2000). However, by some accounts, most of FarmGro's product was shipped to BC and California (Briere 2002). Furthermore, the company had trouble meeting its sales and growth targets. Tim Beard, FarmGro's director of marketing, told a *Western Producer* reporter in early 2002, "The volume is up significantly in the last 12 months.... [b]ut it's still a little slow."

#### *Issues Contributing to FarmGro's Financial Failure*

FarmGro's substantial debt is considered by many commentators to have been a primary cause for the organization's failure. According to Keith Brown, a former chair of FarmGro, the debt load was so high that the company could not keep up with the interest payments not to mention the principal (Pratt 2003c). FarmGro's unserviceable debt resulted in the

SGGF and the CIC calling in a receiver to find a new buyer for the company in order to recover some of the capital that had been loaned to the company, thereby placing FarmGro in receivership. Individuals associated with FarmGro were critical of the government's decision to pull out of FarmGro after only two full years of operation. Both FarmGro's Bob Balfour and Bruce Johnson (former CEO) commented that the government moved too fast in forcing the company into receivership, that what FarmGro required was patient capital as the company needed to write down some debt and recapitalize (Pratt 2003b). Balfour also indicated that the interest on some of the government loans was much higher than what the banks would charge (i.e., around 12 percent as compared to 6 or 7 percent).

Others in the industry suggest that FarmGro started with an unrealistic business plan. Neil Strayer, a manager with Growers International, told *The Western Producer* that politics drove FarmGro from a "small grassroots project" to a "high profile political event" (Pratt 2003b). Strayer indicated that the project had been overbuilt, so much so that when FarmGro's facility was completed it had the capacity to handle the province's entire production of organic wheat and durum. The high level of government investment in the company was an issue in some quarters. Especially, as an individual employed by the CIC had worked on the FarmGro project in another capacity and another individual involved with the project sat on the SGGF board of directors for a period of time in the late 1990s. These connections led to allegations of improper conduct by these individuals and by the CIC and the SGGF (Pratt 2003a).

Problems with the business plan were also cited as contributing to the failure of the company. According to a former FarmGro executive, there were problems finding buyers, the costs of purchasing product were higher than anticipated, and the margins were lower than expected (Pratt 2003a). In addition to these issues, one past board member blamed former CEO Johnson for not developing the specialty grain side of the enterprise, and for ignoring the seed cleaning potential of the business (Pratt 2003b).

#### *Market Repercussions of FarmGro's Failure*

The rapid development and speedy demise of FarmGro, which led to the eventual purchase of its plant by N.M. Paterson & Sons Ltd., helped to further concentrate the provincial market for organic grains, oilseeds, and pulses. Paterson & Sons has renamed the facility Nutra-Sun Foods and uses it to produce organic and conventional flours, drawing on grain supplied by its network of elevators (Pratt 2003f). The purchase solidified Paterson's dominant

position in the organic market as it was already part owner of Growers International Organic Sales Inc.

The sale of FarmGro raised fears among producers that the benefits that FarmGro had provided in terms of increased market competition would be lost. Producer Dwayne Woolhouse told *The Western Producer*, “We definitely saw our premiums improve on our cereal grains when FarmGro came into business and I think we’ll lose those premiums” (Pratt 2003b). However, it is possible that the prices paid by FarmGro in order to access the volumes it needed were not commercially sustainable. The premiums involved may have reflected a struggle for market share as much or more than the underlying strength of market for organic commodities.

### **The Wroxton Organic Farmers Co-op**

In 2000, a group of organic producers formed the Wroxton Organic Farmers Co-op, a new generation co-operative that was interested in purchasing an abandoned Saskatchewan Wheat Pool elevator in the community of Wroxton (located east of Yorkton near the border with Manitoba). The co-op intended to use the elevator as a collection point that producers could use to store and handle grain prior to selling it to a grain buyer. According to an article in *The Western Producer*, in early 2000 the group consisted of five producer members from OCIA Chapter Six; each had contributed \$1,000 as a deposit on the grain elevator (Pratt 2000). The group needed to raise \$50,000 to purchase the facility, and was looking for support from other organic producers in the area. The article indicated that the co-op’s president, Bill Rees, contacted as many as fifty of the region’s approximately one hundred organic farmers and had received positive responses from many of the producers (Pratt 2000). The group had also contacted the rural municipality of Calder, in which Wroxton is located, and the provincial Department of Economic and Co-operative Development, for additional support.

The co-operative eventually decided, however, that the costs were more than its members could take on, so the initiative was abandoned (Pratt 2002b). Two conventional producers purchased the elevator early in 2002 to use for their own grain storage and cleaning needs. A newspaper article written at that time indicated that “the two farmers had to put up enough collateral to secure a \$35,000 letter of credit, which ensures the railway won’t be footing a demolition bill if the elevator is abandoned on its property” (Pratt 2002b). This infor-

mation suggests that the group would have had to raise considerably more than the \$50,000 required to purchase the elevator from the SWP. The 2002 article also indicated that the SWP had put conditions on the sale that stipulated that the purchasers would not be able to use the facility to conduct any form of commercial business, although the farmer-owners were able to negotiate a limit of four years on this stipulation.

### **Farmer Direct Co-operative Ltd.**

Farmer Direct Co-operative Ltd. is an organic marketing co-operative based in Regina, Saskatchewan. The idea for the marketing co-op arose out of a strong working relationship between a group of farmers and marketers. In 2001, a small group of organic growers approached Jason Freeman with the idea of marketing some of their grains. They knew him because he had marketed hemp seed for them through his former company, Bio Hemp. Freeman and Duane Phillippi, an organic crop inspector and founder of the Saskatchewan Hemp Association, agreed to market grain for these farmers, handling the sales and logistics in return for a fixed percentage of each sale. Freeman and Phillippi worked with the farmers to design a co-operative enterprise and, in August 2002, Farmer Direct was formally incorporated as a co-op. The co-operative markets certified organic grains, specialty crops, beef and bison, and has grown from three family farms to include approximately seventy organic farmers.

#### *Start-Up Issues*

The most important start-up issue that confronted Farmer Direct was growing its membership and developing a trusting relationship with prospective and new members. As a Farmer Direct manager indicated, attracting additional members was a challenge:

... the doors open and you start, you have three farmers ... so then it was [getting] the fourth farmer, right. And he asks you, "Great, who are you guys? And, explain the concept?" The longer-term goal of developing a fair deal system that will track back their grain and search out that ethical buyer and the whole vision. And they're completely sold and then they go, "Well, who else have you done business with? Do you have references?" And, you tell him that he's the first guy, right. So those are obviously the initial pains of starting a business when there is not a lot of money in the bank, and you have good buyers and assurances.<sup>42</sup>

The situation faced by Farmer Direct was different from many other marketing co-op start-ups since, from its inception, the group had leadership from nonfarmer, nonmember partners with backgrounds in marketing and organics. Moreover, unlike some other marketing co-operatives, Farmer Direct did not own a cleaning and processing plant. It had to attract new members by offering professional and transparent marketing services. Other start-up issues that were identified included a lack of employees and backend systems (e.g., billing and accounting capacity) to support the growing volume of business. Such growing pains are common to many small business start-ups.

### *Investment Structure*

Membership in Farmer Direct requires the purchase of a \$1,000 share in the co-operative. Membership gives farmers access to the marketing services provided by the co-op and members can vote at the co-op's general meetings. In addition to the membership fee, growers also make a one-time investment that is proportional to their annual sales. The decision to implement this additional member investment was taken, in part, on the advice of another organic marketing co-operative, Organic Valley (CROPP Cooperative). Organic Valley, a successful organic dairy co-operative based in the United States, has been an important buyer of Farmer Direct organic feed grains but also has provided the Saskatchewan-based co-op with organizational guidance and support as it continues to grow and develop. As one interviewee indicated, the additional investment is a further means to promote commitment by farmer members — ensuring that members are also committed in terms of how much they use the services of the organization. One might assume that a substantial investment may influence growers to continue to market through the co-operative rather than to attempt to market on their own account or to seek other outlets.

Aside from some storage capacity at a rail-loading site in Regina, the co-op's assets are invested in the marketing side of the operation. According to one Farmer Direct manager, the co-operative is exploring opportunities for member investment in processing equipment but, as of the time of writing, was not yet ready to move the organization in that direction.<sup>43</sup>

### *Member/Farmer Relations*

Trust and mutual commitment are important aspects of the relationship between the co-op and its members. This is apparent in relation to the steps that the co-op takes to admit new members. According to interviewees, the standard procedure for gaining membership in

Farmer Direct is for the grower to send a letter to the co-op's board indicating that he/she wants to join the co-op. The application must include a reference from one of the co-op's members. If the prospective member cannot provide a reference, then at least one person in the co-op has to know the farmer; if the producer is unknown to anyone directly involved with the co-op, they cannot be considered for membership at that time.

The co-op also takes steps to facilitate mutual knowledge and to build the confidence of prospective members. It offers to handle a sale for the potential member before she/he purchases a membership share and joins the co-operative. The following statement by a Farmer Direct manager indicates the reasoning behind this practice.

We tell them, "Don't give us your money. Let's do a sale first." Because you really get to understand each other once you do a sale and see if they are into the same values; and then also for them to see if we deliver, right? Maybe they are not compatible with us; maybe they don't understand that we're not a grain company. If they understand that we're not a grain company, if they understand that there is a bigger mission going on here, then we're compatible. But if it's just, you know, "You guys have a good price, we're just going with you," and then they ask for a membership, we might not want them because it's going to be future problems.<sup>44</sup>

These are some of the initial steps that Farmer Direct takes to ensure that members will be committed to working with the co-op. Farmer Direct also offers innovative services that are likely to strengthen member commitment to the organization. One significant innovation is to inform members of the costs associated with marketing their products. The co-op's fairDeal reporting system provides members with transaction statements that detail the costs and commissions associated with delivering their product to the store shelf. This system strengthens trust relationships with members but also supports stronger connections with consumers who have concerns about equity and ethics in agri-food transactions. As one grower member described it, "It's been able to show that the farmers are receiving a fair price for what they are growing. Consumers want to know that, and ... I don't blame them, I would too."<sup>45</sup>

Another innovation that the co-op has explored is to encourage farmers to use intercropping to grow crops that can be utilized to produce bio-diesel. The following quote from a Farmer Direct manager describes how the bio-diesel plan works.

We've asked guys to intercrop a bio-diesel crop. So, to grow their own bio-diesel instead of taking out new land, we've asked them to put it in with the crops that don't compete with weeds that much, like lentils and peas. And their lentils and peas will go to a food market, and we'll have to clean them anyways, so we're keeping our camelina seed and crushing it for bio-diesel, kind of trying to establish that we shouldn't set a price on the crop, which is really hard for anybody to comprehend. But we're trying to say that you have this much of a volume of an oilseed as a bonus, its worth this much bio-diesel back. And instead of exchanging money, I'll take your by-product and get you some bio-diesel.<sup>46</sup>

Engaging farmers in these sorts of innovation and experimentation helps to generate cohesion as it requires managers and members to participate in activities that go beyond normal marketing transactions. Furthermore, if the activity/service proves to be successful in the eyes of both parties, it strengthens member commitment to the organization, especially when such services are not being provided by other marketing organizations.

### *Cleaning and Processing*

Farmer Direct does not currently own or operate any cleaning or processing facilities of its own; rather the co-operative relies on existing plants located across the province to handle product for members and to load containers and railcars. Some members have their own cleaning equipment but the co-op also works with other grain cleaners to meet the grain cleaning and processing needs of its membership. One of the reasons that the co-op decided not to develop its own cleaning and processing capacity, at least initially, was to avoid being in direct competition with other processing and marketing operations. As one manager indicated,

People in the industry would've told of us when we started that you would have to have a big plant and have control of everything yourself, but then it would have appeared as control, and then you are a competitor to Sunrise and the other mom and pop cleaning plants. So this way... we got a lot more references, referrals to help fill containers, to help fill product; when you're affiliated with those guys that are at that base level of processing, right, because they've been doing it for a long time.<sup>47</sup>

Although interviewees indicated that the co-op had no immediate plans to invest in processing or cleaning equipment, it was suggested that the co-op might look into purchasing more storage capacity.

### *Marketing*

Farmer Direct markets organic grains, oilseeds and specialty crops. Approximately 90 percent of the co-op's sales are export sales, most of which go to the United States, although about 30 percent go to countries such as Denmark, Norway, Germany, Greece, and Italy (Export Development Canada 2007). Aside from grains, oilseeds, and pulse crops, the co-operative also markets organic beef and bison. The co-op expected to generate about \$5 million in sales in 2007.<sup>48</sup>

When the co-op began operating in 2002, its marketing focus was on specialty crops such as organic flax, lentils, and hemp. In 2006, the co-op started marketing organic wheat, and that same year durum led the co-op's sales.<sup>49</sup> For 2007, Farmer Direct anticipated larger sales receipts based on a combination of strong prices and growing demand for wheat. The co-op has also seen a growth in its organic feed sales over the past couple of years. As one manager stated, "feed might be coming on to a third to a half of our sales, with our relationship with Organic Valley in the States, whereas we started off with just high-end food."<sup>50</sup>

One of the marketing challenges that Farmer Direct faced was establishing connections with buyers. According to one manager, the strategies that were employed combined product research with cold calling and networking at trade shows and conferences. The following quote indicates how these customer searches were carried out.

For example,... if our farmers had lentils,... I went to the local organic health food store and found out who was using lentils in the final products. So, for example, lentil soup, I found out where that company was and gave them a call, right? Same with durum, things like that, right? And then also ... meeting people at trade shows, some people phoning us looking for product too.

The co-op is also using its links with the international Fair Trade movement and with the Fair Deal community, which focuses primarily on domestic trade, to connect with buyers across North America and the world. It was indicated that Farmer Direct's relationship with Organic Valley in the United States grew out of a shared interest in the fairDeal concept.<sup>51</sup> According to one Farmer Direct manager, Farmer Direct's linkage to the Fair Deal movement has empowered the organization. The interviewee stated that relationships like the one that the co-op has with Organic Valley are becoming more common.

It's becoming more typical because we actually have something to offer the

buyers. And ... that's part of the thing now that we have the fairDeal to offer the buyers. It is becoming very strategic, as opposed to just a straight selling relationship.<sup>52</sup>

Farmer Direct has also established fairDeal relationships with smaller retailers across North America including butchers and organic and health food stores.

While the fairDeal pricing system provides producers with payment for their product that reflects the real costs associated with producing and marketing organic commodities, another important feature of the system is that it embeds products with information that can be passed on to the end-consumer. The following quote from a key informant with Farmer Direct describes how the fairDeal system has worked to create a linkage between one of the co-operative's cattle producers and a West Coast retailer.

Ultimately,... the goal of Farmer Direct Co-op and the fairDeal is to link organic family farmers with urban consumers.... And a prime example of that ... is that we're selling certified organic fairDeal beef to a butcher in northwest Vancouver. And it's one of our farmers, Don Bogen, who is a cattle farmer out in Alberta;... we've been shipping his meat to them.... And we're setting up this system so that that's essentially Don's store. So that is Don Bogen's store,... [and] he can feed out his herd to the delivery schedules of that store.... And that butcher is finding a lot of success ... explaining to his customers exactly wh[ere] the meat is from. So, the meat is from Don Bogen, he is getting a fair price, it is the fairDeal standard, and his customers are eating this up. And what we're really finding, which is interesting, is that a lot of his customers are not organic consumers; they just want high quality meat. They are perceiving that this is the highest quality meat, and it is.<sup>53</sup>

Farmer Direct's consumer tracking system, a component of the co-op's fairDeal program, was, in part, a response to consumer demand for food-product transparency and traceability following the BSE (mad cow) crisis. The crisis led to closer scrutiny of the way cattle are slaughtered and processed, but also to changes in the way that they are fed and raised. The combination of organic production and the fairDeal tracking system turned out to be useful for Farmer Direct producers who were confronting this challenge:

With the fairDeal, Don is raising and fattening out his cattle on his farm, with grain that he grew from his farm, okay? So, first thing, no imported feed, no feed from outside of the farm. So immediately you erase any disease

vectors that could be associated with off-farm feed.... And as we develop it further, we want to move to mobile slaughter so that you don't have cross-contamination at the slaughter plant. That is some of the things that we're doing to tell the story about our beef and why it is higher quality.<sup>54</sup>

Farmer Direct is also applying the fairDeal product tracking system to sales of organic grains, oilseeds, and pulse crops. A Farmer Direct manager described how consumers will be able to access product information such as the farm where the product was grown for particular items on the store shelf:

It's as simple as we're going to be shipping out, in the next about sixty days, bags of lentils and peas to health food stores in the Minneapolis region and the Pacific Northwest. These lentils and peas ... [will have a] ... fairDeal sticker and lot number, and the retailers will be able to put this sticker and lot number on that bin which carries the lentils. Once again, the consumer can type that in and go back to the family farm where it was raised,... as long as we're growing it.

So, if you can imagine walking down a health food store aisle and there are bulk bins and just seeing all of these fairDeal stickers and lot numbers. It is free advertising so it's really nice. It's almost as simple as that. But simple is not easy, because to get the permit to get that product to the store shelf, you have to go through a similar third-party auditing system that organics go through. And what we're doing with the fairDeal is that we're developing standards with some of our partners in the States and Canada.<sup>55</sup>

The fairDeal system integrates consumers, marketers, processors, and producers in a values-based supply chain that is guided by commitment to fairness and transparency. In return for attention to these issues, and for the extra efforts made to document transactions and to certify compliance, producers and marketers benefit from consumer buy-in and loyalty that is reinforced by meaningful participation in a values-based commodity chain. Given the capacity of the Internet to link individual products and consumers to particular farms and processing plants, there is potential for rapid and targeted feedback. There is also a sort of micro-branding in that each lot comes with its own set of associations and images related to the particular farms and processors that handled it. This is quite different from the kind of macro-branding that is done for mass-produced grocery products, a branding approach that serves to mask the particularities of production and pathways to the store shelf.

To ensure that members receive timely payment and that they are protected from some of the other risks of marketing, Farmer Direct makes use of the export-financing fund that is offered through the Saskatchewan Trade and Export Partnership (STEP) and is accessible to organic marketers that are insured through Export Development Canada (EDC). The export-financing fund has enabled Farmer Direct to pay its members sooner, since the co-op can access the fund once it has released the product and sends STEP the necessary documentation. Through this arrangement, producers can be paid even while the co-op awaits payment from an international buyer.

Another step that Farmer Direct has taken to protect members is to reduce exposure to riskier markets and commodities, such as hemp:

As we've grown up, we've realized that hemp hasn't matured with us either, unfortunately. The companies are still small companies like us, they're higher risk, a little bit later on the payment terms, so they're not the most attractive.... I've still maintained a base in hemp, but it has gone down because we've had to get harder on our partners that buy our hemp.<sup>56</sup>

### *Opportunities and Challenges*

Innovative approaches to marketing and member relations have helped to distinguish Farmer Direct from other marketing firms in the traditionally conservative grain-marketing sector. These innovations have helped to grow the co-operative but also to move the co-operative and Canada's organic sector in new directions. The leadership role that Farmer Direct has assumed in developing the fairDeal system positions the co-operative to benefit from any success achieved by the system but also absorbs organizational resources. As a leader in the Fair Deal movement, the co-op secures its position in what could be a growing market but meanwhile many other organic marketing firms stay on the sidelines and watch how Farmer Direct and other pioneering enterprises deal with the challenges of establishing another third-party certification system in addition to the existing organic certification system. Two factors that will be critical in determining success is buy-in from consumers and whether the system can be integrated with the current organic certification system in ways that minimize the additional audit effort and the costs associated with certification.

Farmer Direct's leadership on the fairDeal initiative has attracted a significant following from individuals concerned with issues surrounding the politics of food. As a result, the co-

op has faced the rather unusual challenge of modifying its co-operative form to include non-farmers who want to support its activities. To do this, the co-operative is planning to incorporate under the Federal Co-operatives Act (it is currently incorporated under the Saskatchewan Co-operatives Act). While Farmer Direct does not intend to convert to a publicly traded co-operative (as the Saskatchewan Wheat Pool did in 1995), it does want to have the ability to extend ownership and investment opportunities to its supporters. As one manager indicated,

One of our ideas is down the road; if we want to do this, we structure ourselves so that we can go out and offer consumers that are actually buying our farmers' food the opportunity to invest in the co-op or invest in projects. But, you know, once again it is inviting people with similar ethical views to do business with you and ... that's what it's all about. You have to have shared ethical views.<sup>57</sup>

Here, as in other instances, Farmer Direct is following in the steps of the successful American organic dairy co-operative, Organic Valley, which has a structure that allows nonproducers to invest in the organization. As one Farmer Direct manager indicated, "our farmer members are the only ones who will have a voting share. And then if you want a share that returns just a fair rate, whether it is just a 5 percent return, it's ... going to be a nonvoting share."<sup>58</sup>

While innovations and media notoriety (Cuthbert 2007; CBC 2006) have created new opportunities for the co-operative, its board and managers will need to find ways to deal with the challenges that arise with success and with the inclusion of new stakeholders. Although consumer investors with nonvoting shares are likely to have the organization's best interest at heart, there may be pressure to demonstrate the co-op's success by returning dividends to investors. The ability of the co-operative to make capital investments, or to return equity to retiring members, are examples of issues that may be affected positively or negatively by any restructuring or financial realignment.

The biggest challenges that will likely confront Farmer Direct in the coming years are related to securing member commitment to the co-operative and its approach to promoting a fair and transparent marketing system that more closely links producers and consumers. While Farmer Direct has taken steps to strengthen the ties between the members and their co-op, there are certain characteristics or features of the organization and its membership

that may cause other problems to come to the fore as the business grows. Membership heterogeneity, diversification strategies, and access to cleaning and processing capacity are issues that may intersect to create tensions and conflicts down the road. For instance, the decision to market both grains and livestock could lead to discord among the membership, especially if the activities of one group of producers are perceived to be subsidizing the activities of the other group. While diversification may turn out to be a winning hand, there are some well-known examples of co-operatives that have run into difficulties as a result of using profits generated from the activities of one set of members to subsidize activities connected with another group of members. Sexton and Hariyoga (2004) indicate that one of the factors that contributed to the failure of California-based Tri-Valley Growers was the decision of that co-op to use revenues generated from its fruit processing activities to subsidize the processed tomato side of the business.

Differences in producer-member grain-cleaning capacity may also create challenges for the co-op. Farmer Direct relies on its network of producer members, and on nonproducer members and other commercial cleaners, to clean and process member field crops. While some members have their own cleaning plants, or good working connections with individuals who do, other members may have fewer obvious options. This could potentially lead to problems as a result of perceived or real disparities in terms of access to cleaning and processing facilities. There is also a risk that differences with respect to farm size or production volume, will lead to actual or suspected differences in terms of influence and treatment with respect to various other aspects of co-op operations and decision making.

### **Northwest Organic Community Mills Co-operative Ltd.**

Northwest Organic Community Mills Co-operative Ltd. (NOCMC) is a producer-owned co-operative that cleans, processes, and markets organic grains. The co-op started through the grassroots efforts of organic producers and community members located in the northwest grain-growing region of Saskatchewan. The group was interested in establishing an organic marketing co-operative with cleaning and processing capacity that would also provide employment opportunities for the rural community of Maymont. The group moved quickly to establish its own cleaning and processing plant, using initial member contributions to purchase the old school in Maymont and to set up cleaning and processing facilities there.

The co-op was incorporated as a new-generation co-operative (NGC) in February 2003; at the time, there were approximately twenty members. Following incorporation, the co-op launched an extensive equity drive to secure additional start-up capital. Since its formation, the co-op has grown to include approximately a hundred investors, including over sixty producer members. The co-op continues to operate a cleaning and processing plant out of the former school.

### *Start-Up Issues*

For producers interested in establishing a jointly owned enterprise, choice of organizational form is a critical issue in helping to determine who benefits from the activities of the organization (through the ownership structure) and who shares in decision-making control (through the governance structure). The Maymont producer group received advice from a consultant who had experience developing NGCs and, following this consultant's recommendations, the group decided to incorporate as an NGC. As one interviewee indicated, the consultant recommended the NGC model, as that person was aware of provincial funding that the group could access for new generation start-ups. One of the early members of Maymont described the situation:

Somebody knew something more than everybody else in the room, so because that person knew that quite well, we decided, "Well, if he started one, he can start another one, it's going to be quite simple." And that is sort of the way this thing got started too, one person had a better handle on it than everybody else.<sup>59</sup>

While the co-op's organizational form does not seem to have negatively impacted its producer members, providing members with an opportunity to help decide which organizational model best fits their needs is an important way to engage them, and to strengthen both commitment and cohesion. Interview data indicated that some members were somewhat dissatisfied with the process and, particularly, with the lack of a more extensive opportunity to evaluate alternatives.

Another important start-up concern for the co-op and its membership was to avoid accumulating a large debt. As indicated in newspaper reports from that time, the co-operative did not want to replicate the problems that led to FarmGro's failure. In order to avoid taking on excessive debt, the co-operative kept costs to a minimum. In April 2002, the group

purchased the Maymont school building for \$20,000, and group members refurbished used cleaning equipment. They also contributed their volunteer labour to the renovation and retrofitting of the building.<sup>60</sup>

### *Investment Structure*

NOCMC developed from the grassroots efforts of local organic farmers and community members. The group began with approximately twenty members, which included organic producers from OCIA Chapter Two and community members interested in supporting the project. According to one of the founding members, “Originally, it was just everybody throw \$1,000 in the hat, and then once the co-op was established, then we went to the share structure.”<sup>61</sup> As mentioned previously, the group decided to form an NGC that allowed both producers and nonproducers to invest in the organization. While interviewees were not certain on the value of an investor share, they did indicate that one producer share is \$500.

From the beginning, members of NOCMC actively investigated ways to offset the high costs associated with starting up a new cleaning plant and marketing operation. For instance, the group used the initial member capital (the approximately \$20,000 that the members contributed to the kitty) to purchase the former school building in Maymont. In the meantime, the group continued to raise capital and, by the end of March 2003, members had contributed \$75,000 in capital and “work-in-kind,” which enabled the co-op to purchase four cleaning machines, grain legs, and dust collection equipment in addition to the school building (Pratt 2003d). It was also at this time that the co-op planned a share offer to raise additional capital. The purchase of second-hand cleaning and processing equipment (from one of its members) also exemplified the co-op’s fiscal conservatism. As well, members contributed a large amount of sweat equity as they refurbished the second-hand equipment and repurposed the former school building.

In October 2003, it was reported that the co-op had already raised \$135,000 through its share offering. Although the co-op members planned to raise as much as \$326,000 to offset project costs of \$455,000, the co-op’s president, Dale Beaudoin, indicated that if they raised \$240,000 through their share campaign, they intended to go ahead with the project (Morrison 2003).

As the co-operative grew, it continued to seek innovative ways to finance the requisite infrastructure. To increase on-site storage capacity, the co-op negotiated a bulk purchase of

grain bins. Members purchased or leased the bins directly from the supplier, and the bins were set up in the yard surrounding the cleaning plant. As one co-op member stated,

... a lot of the producers took it up and did purchase the bins, and most of the bins are leased and they are leased for ... a five-year term. So, it is reasonable storage for most producers, but it has come in handy for the mill.<sup>62</sup>

Given the prices and conditions that were negotiated, this deal was attractive to many members. Having bin capacity at the plant site allows producers to transport grain off their farms and to the plant when it is convenient. They can also avoid difficulties associated with transporting grain during periods of bad weather or when road bans are in effect (e.g., during the spring thaw). From the plant manager's perspective, the storage of significant inventories of grain at the plant site facilitates timely delivery and rational use of the cleaning equipment. As discussed below, members are also generous about allowing the co-op to store product in unused bins. The enterprise gains access to more and better storage capacity without substantially increasing the debt-load of the organization.

Subsequently, the co-op made a significant capital investment in new equipment that was expected to double its cleaning and processing capacity. The investments were made in early 2007, in part, as a result of a setback that occurred in the cleaning and processing side of the operation. On the heels of this setback, the co-op reconsidered its use of second-hand equipment and invested in new equipment, partly to avoid the risks and costs associated with breakdowns and repairs. Money was borrowed from lending institutions in order to make these investments.

### *Governance Structure*

The governance structure of Community Mills Co-op includes representation from both producer members and investor members. The board consists of nine directors elected for three-year terms. Elections are held each year to retain or replace board members whose term has expired; generally, members vote to fill two or three director positions in any given year. Producer members elect eight of the nine directors; the investor members elect the remaining director as their board representative. In addition to electing representatives to the board, both producer and investor members can vote at the co-op's AGM where the principle of one member, one vote, applies to all members.

*Member/Producer Relations*

The strong links between the members and their co-op is an important characteristic of Community Mills. This relationship reflects the commitment on the part of members and management, and a shared dedication to a flexible and conservative approach. From the outset the co-op has relied on sweat-equity contributions from its members. Such contributions continue to play an integral part in the day-to-day operations of the plant, as was indicated in an interview with one Community Mills member:

... for example,... as of the first week of August, we had some old cleaners that we wanted to take out. [We] took them out and put new ones in, and probably 90 percent of it was volunteer labour out of our board of directors. I mean it went on for a month, but ... it was because our producers, our board members were helping. [They] had their own work to do, so they're coming in on the time that they have. Well, they didn't really have it to spare, but when they could come in and help, [they did]. And ... things like that [happen] all of the time that something needs to be done and the board organizes a work bee to help the workers ... to get it done.<sup>63</sup>

Member volunteer contributions have allowed the co-op to minimize many of its start-up costs and operating expenses. Flexibility on the part of members and management has also helped the co-operative to grow without serious conflict or stress. In most NGCs, producer members purchase shares that both allow them and obligate them to market a given volume through the co-op. However, Community Mills has thus far not enforced such delivery quotas. As one of the co-op's directors said:

Usually, the producer share is a commitment to deliver grain. We haven't been following that very closely.... We've had drought years where guys couldn't produce their numbers and then we've had some guys that were shareholders, that had a lot of shares, that decided that they were going to market a certain type of grain on their own. So they're pretty much, they're nonexistent partners.<sup>64</sup>

This flexibility is also apparent with respect to grain storage. Although many members own or lease private bins at the cleaning plant site, the range of crops and grades that the co-op handles often makes it necessary to use producer storage on a temporary basis. As Wade Harris, Maymont Co-op manager, indicated:

Most producers are very good that if we need the extra storage space and their bin isn't being used ... they will let us use it. We just have to be prepared that at the time ... [a member] ... needs his bin,... then we've got to help to get it out, so that he can have that space.<sup>65</sup>

### *Cleaning and Processing*

Community Mills Co-operative operates a cleaning and processing plant that handles only organic grains, oilseeds, and pulses. As a result of upgrades made in 2007, the plant can clean wheat at a rate of 220 bushels/hour, flax at 150 bushels/hour, and is capable of cleaning to 99.9 percent purity.<sup>66</sup> A report from the Government of Saskatchewan (2007) indicated that the upgraded plant would be able to process one million bushels of grain, oilseeds, and pulses annually, about double the co-op's previous capacity.

Aside from the co-op manager, the organization employs a full-time cleaning plant manager who oversees the plant operation as well administrative and support staff. In mid-2007, the plant was operating ten to twelve hours a day and there were plans to increase this to sixteen hours a day. Currently, the plant does not dehull grains such as spelt or certain varieties of barley that require that process. The co-op does have the equipment required to bag cleaned grain in twenty-five kg bags and product in this format is generally loaded into containers for shipment overseas. The co-op also has milling capacity that allows it do value-added production (e.g., various flours, and pancake and muffin mixes) for the local retail food market.

### *Marketing*

One of Community Mills Co-op's most important markets is the organic feed market and specifically the growing organic dairy sector in the United States. The co-op also markets food-quality grains, oilseeds, and pulse crops in Canada and to international markets including the United States, Japan, Germany, and Ireland. Locally, the co-op markets organic flours, pancake mix, and whole grains to retail stores under its "Old School Organics" label.

On the export side, Community Mills has received Japanese Agricultural Standard (JAS) certification, which has opened new opportunities in terms of export sales to the United States and Japan. Organic certification is an important issue for organic marketers, processors, and producers. Canadian producers and processors require JAS certification in order to market into Japan. However, exporters in the United States can receive "JAS equivalency" certification and can market organic product into Japan that is not grown by a JAS certified

farmer but is handled by a JAS certified processor. Community Mills' JAS certification thus enables the co-op to work with US exporters who want to buy and export Canadian grain to the Japanese marketplace.

On the value-added side, the co-op markets its line of "Old School Organics" products in grocery stores in central and western parts of the province, including stores in Saskatoon and the co-op grocery store in North Battleford. At the time of writing, the co-op only markets its branded products in Saskatchewan. Before Community Mills can market its products in other provinces it needs to register its label, and to meet other regulatory requirements such as providing nutritional data on its packaging. The co-op is also moving towards obtaining Hazard Analysis Critical Control Points (HACCP) certification.

Co-ordination and information sharing are two important functions that successful marketing organizations perform. Community Mills sources product from more than sixty members located across northwest and central regions of Saskatchewan. Pooling member production in order to fill large contracts is one significant form of co-ordination that the enterprise performs. In order to meet buyer specifications and to sell larger volumes of product in the organic food market, the co-op may also blend lower grade product with higher quality grain. The ability of the enterprise to source large volumes of grain and to blend grain from different producers is a benefit to its members and to buyers as the co-op effectively and efficiently takes on the roles of information gathering and co-ordination. Sharing market information with producers also helps to improve co-ordination. The co-op is able to influence production decisions and consequently supply by providing producer members with information about available contracts. As indicated by an NOCMC board member, "we do have some larger contracts on some pretty mainstream grains that grow well in this area, and we can provide a lot of that to our producers and they know that."<sup>67</sup>

It is important to note that member producers are free to market outside of the co-op if they so choose. This often occurs with niche market commodities where Community Mills does not have contacts with buyers that are interested in purchasing those products. In such cases, the member is still able to use the cleaning services of the co-op. The ability to access the co-op's grain cleaning service is an important benefit that members receive.

NOCMC also markets and processes grain for nonmember producers and some grain marketing companies that have limited cleaning capacity. Some of the advantages of providing services to nonmembers include the ability to source a quantity or quality of grain that

the membership might not be able to supply, and the opportunity to optimize utilization of the plant's processing capacity. This rewards both producer and investor members by increasing enterprise viability and the value of member shares. For employees this practice may also translate to improved wages and more stable employment. However, handling non-member production can also lead to, or exacerbate, organizational issues including reduced member commitment, free-rider problems, and principal-agent problems. In order to head off and to mitigate such problems, the co-op assures its members that they have priority over nonmember business. As a board member reported "we ... assure our own producers that their grain gets delivered prior. That they have priority for delivery over outside producers, so unless the quality is an issue,... that's the only way that they'll ever get priority."<sup>68</sup>

### *Opportunities and Challenges*

The Community Mills Co-op has recently experienced important changes such as the addition of a full-time manager and improvements to its processing and cleaning plant. These changes have helped the co-op to expand its marketing operations, to process more member and nonmember product, and grow its member base. With the addition of a full-time manager, the co-op has more capacity to search out new markets.

One of the growth opportunities identified by interviewees is the further development of the "Old School Organics" product line. While entering the value-added food market provides another marketing option for the co-operative, and a potentially significant income generator for the members and the community, it will be important to manage this project in a way that does not overtax the capacity or resources of the organization. The co-op faces multiple challenges as it develops its retail-oriented products and business activities:

- finding the capital needed to make further investments in equipment, staff, promotion, and certification (e.g., HACCP)
- finding and training new employees who are willing to work in a small rural community
- meeting regulatory requirements necessary to market outside of the province
- establishing contacts and relationships with buyers in the retail sector

With respect to the fit between plant size and growth opportunities, increased processing capacity has provided new openings for the organization. Interviewees indicated that the co-op had outgrown its original equipment and that the plant's limited capacity had created bottlenecks. Increased capacity allows the co-op to accept more product from both members

and nonmembers but the added volumes must be managed carefully. As one member commented:

...you're going to have opportunities that Maymont can participate in. For example, cleaning a whole bunch of grain for, well, maybe an organization like Sunrise. There again you have an organization that doesn't have any processing.... Those opportunities are good. It ensures that economic viability is going to happen, but at the same time the workload is going to be, I suppose, at times overwhelming. You have to co-ordinate all of this.<sup>69</sup>

The co-op has been cautious not to enlarge its processing and marketing operations too quickly. For instance, the co-op realized that it needed to train more individuals before it could extend plant hours. Describing the challenges involved in managing growth, a director for Community Mills commented:

... everything we do is sort of a test in time. We'll see what our new addition to the plant [does], and how well we succeed with that in the next year, and then we'll say, "Well, you know, we can probably take on more grain." So we'll kind of expand our producer base a little bit more. And at the same time, Wade will be seeking markets for that stuff and we'll continually build it one section at a time. We're not just going to stick our neck out so far, that we're going after the buyer and say, "Yeah, we got this" and then try and hustle for the product and then find out we can't even put through the plant. You know, we have to go one stage at a time, and we've always kind of built one stage at a time, so that we're not over-extending ourselves.<sup>70</sup>

One of the challenges that the co-op will face as a result of increased capacity and handling nonmember product will be to convert nonmembers to members. This will be important as a way to address any perceptions that nonmembers receive the benefits of membership without assuming the associated costs (a free-rider problem). The purchase of member shares will also provide the co-op with new capital. Finally, signing up new farmer members will give the organization more certainty with respect to the supply — and the associated blending power — that it will have at its disposal.

Another long-term challenge that confronts this co-operative (and others like it) concerns the ability of the organization to also attract younger new members in order mitigate the potential for horizon problems. Horizon problems occur when older producer members become averse to investing in assets or projects from which they will derive little personal

benefit. As retiring members withdraw retained earnings from the organization, it can also be more difficult for co-operatives to accumulate the necessary capital, or to acquire the financing needed for new investments. Although the incorporation of Community Mills as an NGC with tradable member shares provides it with some protection from horizon problems, the co-op's decision to accept product from nonmembers may make it more difficult for members to find willing buyers for their shares. It is possible that this may become more of an issue for the organization sometime in the future.

### **Prairie Red Fife Wheat Organic Growers Co-operative Ltd.**

The Prairie Red Fife Wheat Organic Growers Co-operative was incorporated in June 2006 as a nonprofit co-operative. The co-op, which has eighteen producer members, functions as a community service co-operative. The organization's stated mission is to "provide education, public awareness, promotion and production of certified organic Red Fife Heritage Wheat."<sup>71</sup>

Red Fife Wheat is a heritage wheat that has certain traits that make it desirable in the health food market; specifically, some people who suffer from wheat intolerances can consume this wheat whether it is organic or not. While Red Fife commands a premium in the health food market, there are certain challenges that make it especially difficult for producers to market. For instance, since Red Fife is an unregistered variety of wheat in Canada, the Canadian Wheat Board considers all Red Fife wheat to be feed wheat.

Given these and other issues, the co-op is concerned with ensuring both the integrity and profitability of the heritage crop. While the co-op is interested in promoting the benefits of the grain, co-ordinating member production also has been an important activity for the group as it attempts to reconcile supply and demand. The following quote from one of the co-op's producer members highlights marketing issues facing Red Fife growers.

It's small. It's not growing probably as fast as we had anticipated. We are at standstill as far as increasing our membership and we want to make sure that we don't end up setting up a bunch of inventory that we have problems moving, and especially with ... regards to having it sold into a dedicated market for this particular wheat and not having it sold into the regular feed market, which if you went by the regular feed price would be a considerable loss....<sup>72</sup>

The group has taken several steps to resolve supply and demand issues, and to protect their market: sharing price information with members, limiting or expanding production in response to demand, developing market contacts, and raising public awareness about the health benefits associated with the grain.

## Chapter Five

### LESSONS FROM THE FIELD: EXPLORING AND EVALUATING CO-OPERATIVE MARKETING OPTIONS

**T**HE PROFILES OF CO-OPERATIVES and other producer-owned firms presented in Chapter 4 highlight a range of organizational models and provide potential lessons for individuals and groups interested in learning from the strengths and limitations of these diverse approaches. Here we analyze the profiled co-operatives using elements of the “property rights” framework that is employed by certain economists to analyze the strengths and limitations of diverse business arrangements. We also identify and discuss some of the alternative operational models that these co-op profiles bring to light and venture some recommendations with respect to organizational issues and enterprise design. The chapter concludes with a discussion of opportunities and challenges that farmers and others may face when considering or developing a co-operative marketing enterprise in the organic field crop sector — whether located in Saskatchewan or elsewhere further afield.

#### **Analyzing Property Rights Problems in Co-operatives**

Cook (1995) argues that certain property rights problems are more likely to occur in some types of co-operatives than others (see Table 5.1, overleaf). Here we use some elements of Cook’s framework (discussed above in Chapter 3) to analyze potential and apparent property rights problems in the co-operatives and related producer-owned organizations profiled in the previous chapter. As part of this exercise, the organizations we have studied are classified according to Cook’s (1993; 1995) taxonomy of agricultural co-ops.

Girvin Co-operative overlaps two categories of agricultural co-ops as it included features of both a multifunctional regional co-operative (Nourse II)<sup>73</sup> and a marketing co-operative

(Sapiro II). The Girvin Co-op can be characterized as a multifunctional regional co-op since it provided marketing and certification services to organic farmer members located across western Canada. It also cleaned and processed organic grains, a service that was not otherwise being provided. The co-op can also be classified as a marketing co-op as one of the primary activities of the co-op was to market the members' crops.

Despite having been incorporated as a nonprofit corporation, Marysburg Organic Producers operated in a way that was similar to many of the organic marketing co-operatives profiled (here and elsewhere). The organization marketed a number of commodities, and although the group was initially formed to cope with the lack of marketing opportunities, it also improved the margins that producer members received for their product. Applying Cook's criteria, this organization fits under the Sapiro II category.

Community Mills Co-op in Maymont is a new generation co-op that markets organic field crops. Despite meeting its apparent fit under the NGC classification in Cook's framework, this co-operative behaves similarly to many regular marketing co-operatives as it does not strictly enforce member delivery rights and obligations, and also handles the cleaning and commercialization of some nonmember crops. In some instances the co-op also sources nonmember grains in order to meet the specific quality and quantity requirements of particular customers.

Farmer Direct can be classified as a marketing co-operative (Sapiro II) that is involved in multiple commodity lines. The co-op's fairDeal program is congruent with Sapiro's goal of increasing producer margins through improved co-ordination and orderly marketing activities. The co-op's membership is broadly distributed across the Prairies.

The Prairie Red Fife Co-op is an example of a bargaining co-operative (Sapiro I) that represents producers who share an interest in producing and marketing Red Fife wheat. Although the co-operative does not directly provide marketing services, it does undertake some co-ordination functions, including the communication of production and supply information that members can use to improve their production decisions and bargaining position.

According to Cook, marketing co-operatives (Sapiro II) are most affected by agency problems (control problems) and influence-cost problems (including portfolio problems).<sup>74</sup> Among the marketing co-operatives that were profiled, it is difficult to determine with certainty that any kind of agency problem is or was present. In the cases of Girvin Co-op and

Marysburg Organic Producers, agency problems were either suggested in the media or by interviewees. However, with both of these co-operatives relying heavily on the contributions of volunteers to manage the activities of their organization, it is possible for critics to misinterpret the hard work of key individuals for an agency problem or an activity that results in influence costs for the organization. In many instances, whether these efforts are remembered as valuable leadership activities or an agency or influence-cost problem will depend on an organization’s overall success or failure.

**Table 5.1:** Residual Claimant and Decision Control Problems in U.S. Agricultural Co-operatives

<b>Property Right Constraint/Co-operative Type</b>	<b>Local Co-op (Nourse I)</b>	<b>Multifunctional Regional Co-op (Nourse II)</b>	<b>Bargaining Co-op (Sapiro I)</b>	<b>Marketing Co-op (Sapiro II)</b>	<b>New Generation Co-op (Sapiro III)</b>
Free-Rider Problem	Major	Minor	Major	Minor	Minimal
Horizon Problem	Major	Major	None	Minor	Minimal
Portfolio Problem	Minor	Major	None	Major	Minimal
Control Problem	Minor	Major	Minor	Major	Minor
Influence-Cost Problem	Major	Major	Minimal	Minor	Minor

Note: Range: none to minimal to minor to major.

Source: Adapted from M.L. Cook, 1995, “The Future of U.S. Agricultural Cooperatives: A Neo-Institutional Approach,” *American Journal of Agricultural Economics* 77: 1157.

The existence of a portfolio problem (differential preferences with respect to risk and investment) may have contributed in part to the wind-down of the Marysburg group, as at least some members of that POF were averse to risking what remaining equity they had in the organization when there were other marketing alternatives available to them. However, this problem does not seem to have been a factor in the failure of the Girvin Co-op, nor does it appear to be present or a significant factor in any of the other co-operatives profiled.

Cook considers influence-cost problems to be a minor issue for marketing co-operatives as these co-operatives generally market only one or a few similar commodities and most of the producers involved share a common interest in seeing that organizational resources are devoted to marketing efforts for these products. Co-operatives that are more highly diversified in terms of the commodity types that they market are more likely to be negatively

affected by influence-cost activities. In such co-ops, the undue exertion of influence can lead to a membership that is fractured along commodity lines — for instance, grain farmers versus livestock producers, or fruit versus vegetable producers.

Co-operatives such as Farmer Direct and Community Mills should be aware of the possibility of these sorts of problems given that both organizations are quite diversified in terms of their marketing activities. Of course, while diversification may complicate certain matters in a processing and marketing co-operative, diversification in terms of products handled may also benefit the enterprise in significant ways. For example, it may help to spread costs and reduce risk, smooth peak demands on facilities and through-put capacity, and make the co-operative more attractive to customers who would prefer to source multiple products at one location.

Though free-rider problems are a factor for many co-operative businesses, Cook considers free-rider problems to be a relatively minor issue for most marketing co-operatives. These organizations are generally successful in improving participating producer margins via economies of scale. Therefore, producers should be motivated to join a marketing co-op, especially as buyers generally prefer to deal with one marketing agent rather than numerous smaller producer-suppliers. Producers may derive multiple benefits from joining and participating in a processing and marketing co-op, including but not limited to the financial benefits available to them as member-owners and users of the facilities. The economic impact of non-joiners may be less serious for a co-op in a rapidly growing market where there are plentiful opportunities for selling quality organic products.

While most of the co-operatives profiled here have handled crops for nonmembers, the benefits to the organization in terms of sourcing quality product to meet contracts, or ensuring that a cleaning and processing plant is being more fully utilized, likely outweigh the costs. However, this might be more of a problem for Community Mills Co-op as it is incorporated as an NGC. The NGC form is in part a response to property rights problems that can occur when producer members do not have a mechanism for transferring their shares in an enterprise, or for participating in the accumulation of asset value that can occur if the business is successful. If this co-op (or any other NGC) continues to service nonmembers, this could potentially have a negative impact on the value of member shares. On the other hand, if the service that an NGC such as Community Mills provides its members and the surrounding community is more important to the members than the value and liquidity of their member shares, then this is either a non-issue or the enterprise might consider incorporating as a different form of co-operative.

### Co-operative Enterprise Models

The profiles of co-operatives and other producer-owned firms provided in the previous chapter demonstrate three different models that a grain-marketing firm might choose to adopt. The first model requires no direct investment in a centralized cleaning and processing plant. Rather, the POF relies on a network of cleaning and processing facilities distributed across a region, some or all of which may be owned by members. This was the model adopted by Marysburg Organic Producers and the approach that continues to be used by Sunrise Foods. Farmer Direct also employs a similar strategy.

The second model is a co-operatively owned cleaning and processing plant that is centrally located to service producers who farm in one or more growing regions. Community Mills Co-operative adopted this model to process its members' products. The Girvin Co-op also used this approach. The third model involves the purchase or construction of a grain handling and storage facility by a group of producers where provision of processing and joint marketing services is not anticipated, or optional. The Wroxton Organic Farmers Co-op was considering this operational model.

#### *Outsourcing to a Network of Grain Cleaners and Processors*

Some producer-owned marketing organizations have reduced their capital requirements by outsourcing grain cleaning and processing activities to a network of cleaners and processors located in several parts of the province. In addition to the investment savings and flexibility that this outsourcing model provides, it also reduces labour, and perhaps also managerial, requirements since the contracting organization does not need to hire individuals capable of operating and maintaining the specialized equipment used to clean and process field crop commodities to market specifications. This model can also help the marketing organization to achieve economies of scope associated with diversification since the organization can use a variety of cleaners and handlers who have the equipment and know-how to clean and process niche market or specialty products. The producer marketing organization can therefore handle and sell such crops without committing scarce resources to setting up the processing equipment required.

As with some other kinds of POFs, under this arrangement there are decisions to be

made in terms of the kinds of contractual arrangements that the enterprise will choose to establish with its members (and the members with their POF). For instance, the organization may opt for an arrangement in which a member retains ownership of the product through the cleaning and processing stages, up until a buyer takes possession. This was the approach adopted by the Marysburg group. The decision as to whether members will retain ownership of the product will in large part depend on an organization's capacity to underwrite, and tolerance for, risk. The Marysburg producers were willing to cover the risk on their own individual grain shipments while these were being readied for market. They were, however, not prepared to make arrangements to have their organization assume that risk (for all participating members). It is noteworthy that since that time, STEP and EDC have come forward with a program that provides organic grain marketing firms with operating cash through STEP's export-finance fund if their export sales are covered through EDC (see Farmer Direct profile).

The distributed cleaning and processing organizational model yields capital and labour savings to a POF since it relies on others to finance and maintain the required facilities. In doing so, it may also draw on underutilized plant capacity, including some that is owned and operated by grower members. There are, however, potential disadvantages in this type of arrangement. There may be logistical problems dealing with a far-flung network, co-ordinating grain deliveries to the various plants, responding to the cleaning schedules of collaborating plants, and ensuring timely delivery to customers. Moreover, when a firm decides to outsource a service to an agent, that firm invariably loses some control over when and how that service is provided. The agent has the power to decide which jobs are performed first and also controls some aspects of product quality (to the degree that quality is determined in the cleaning and processing activity). One way that producer-owned marketing organizations try to address these sorts of principal-agent problems is by using trusted grain cleaners with which the organization has a well-established relationship. Alternatively, it will secure contracts with the grain-cleaning firms that clearly indicate the responsibilities of each party to the arrangement.

Other issues related to outsourcing may not be as obvious but, nevertheless, can be important. Producer-member commitment to co-operatives and other kinds of producer-owned firms may be strengthened when members personally contribute to building or financing a shared physical plant. Community Mills is a good example of a co-operative that benefits from members contributing their voluntary labour, expertise, and capital to the organization. These forms of participation reduce start-up and operating costs, and can also

strengthen both group cohesion and member identification with the co-op. In addition, the co-operative benefits from the creative energies and problem-solving capacities of many people who come to see the development and success of the co-op as a priority. However, without a centralized and collectively owned processing facility, these kinds of engagement and commitment may be a little less likely.

Finally, there is also the potential for influence-cost problems if one or more of the grain cleaning/processing agents in a distributed network are members of the POF. There is a risk that such members may use their strategic position and influence in the organization to negotiate better deals for themselves. Preferential dealing can be especially problematic if such arrangements are not transparent or are made without the formal approval of the board. A reasonable balance is required, however, because members who contribute their own processing facilities and expertise to such arrangements should not be expected to provide services to other producer members at less than market rates, nor to systematically sacrifice their own interests. If a distributed model that relies on a network of collaborating firms is to survive, fairness and equity must be achieved for all participants.

#### *Centralized, Enterprise-Owned, Grain Cleaning and Processing Facilities*

As an alternative to the model described above, some producer co-operatives have established their own, dedicated, organic field crop cleaning and processing facilities in a single location. These groups frequently rely more on their members to volunteer their labour and time, as well as to make substantial capital investments. They may also draw on investments from community members and other allies in order to accumulate the necessary financing.

The Community Mills Co-op also depends on nonmember business to cover some of its fixed and operating costs. While accepting nonmember business is a strategy that many co-operatives (e.g., consumer co-ops) have adopted at one time or another, this strategy has the potential to precipitate a free-rider problem. As mentioned above, free-rider problems can be especially significant for NGCs and their members, since members generally sell delivery rights to new members when leaving the co-operative. If the NGC is accepting nonmember business, this can potentially devalue member shares as nonmembers are able to access the services of the co-op without making a similar financial investment.

One advantage of a centralized plant is that it acts as a focal point for activities and provides both visibility and a substantial physical presence for the organization. Another

advantage that this operational model offers is the ability to directly monitor and control cleaning and processing activities. The enterprise can manage and ensure quality standards and decide for itself which product to handle and when. The organization can rationalize its operations and capture economies of scale by, for example, co-ordinating its cleaning and processing activities for a particular commodity. The organization's ability to realize economies of scale are further improved if the plant has good on-site storage. Another advantage of this model is that it allows the organization to capture the potential profits associated with cleaning and processing activities. The cleaning plant can also be used to clean grain that will be used for seed in the following growing season. The primary disadvantage to this model is the high cost associated with setting up and maintaining a cleaning and processing plant. Another disadvantage is that while the organization may capture economies of scale by handling larger volumes of a particular product, this may be achieved at the cost of the ability to realize economies of scope. Relying primarily on a single, centralized plant, the organization may be less flexible and less able to handle diverse, specialized products.

#### *A Co-operative Marshalling Point*

Another enterprise model that organic producers might consider is to establish a site where producer grain can be stored and cleaned before it is sold to buyers. According to information available to the authors of this report, this was the approach that the Wroxton Co-operative had planned to implement had the group gone ahead with its idea of purchasing an unused elevator in that community. The purchase would have provided the group with a storage and handling facility adjacent to a rail line. According to the plan, while producer members would each have access to the facility, the group would not necessarily market member grain collectively.

It is possible that a group of producers storing grain at a facility with good access to transportation routes might realize improved margins through technical or market economies of size. Unit transaction costs, for example, could be minimized by pooling grain and/or marketing through a common marketing agent. This would not necessarily require that the co-operative hire its own agent. Rather, the group might decide work through an intermediary already operating in the sector.

This model might give producers an opportunity to co-ordinate marketing informally, selling jointly on occasions when that seems advantageous. It also provides producers with off-farm storage, freeing up storage capacity on the farm and making it easier to complete

sales during winter months. If a vacated elevator was being used, this would also provide the producers with access to a weigh station. As well, if a group were able to acquire a storage site that had access to an operating rail line, members might also be able to load their own producer cars and realize considerable savings as a result.

There are a number of potential disadvantages associated with such a model. It will be necessary to implement formal but nevertheless flexible operating procedures to deal with issues of shared use of facilities by producers with different needs and expectations. While some producers may see the facility as primary, long-term storage for their organic crops, others, for reasons of location or because they have sufficient storage capacity of their own, may treat it more as a weigh station and transshipment facility. Appropriate formulas are required to allocate and charge for storage space and use of grain handling capacity. Although using the facility at or near its theoretical capacity will reduce costs, it will be tricky to closely match demand with throughput capacity.

As well, since this model tends to reduce the number of income generating services that the co-op provides to its members, there may be less capacity to pay for hired staff. While the group may choose to rely more heavily on volunteer labour, thus cutting costs and increasing their own direct involvement with the organization, this can also lead to some complications. Those who do more unpaid work, for example, may quite naturally come to feel that they should receive some preference when it comes to using the shared facilities.

### **Lessons and Recommendations**

The following section extracts some key lessons and presents some recommendations for consideration by new and existing organic marketing co-operatives. These recommendations are based on analysis of information acquired from the field interviewees and from a review of the literature on organic marketing and co-operative enterprises. They also reflect observation, discussion, and synthesis by members of the research team — including researchers from the Centre for the Study of Co-operatives and participating board members of the Canadian Organic Certification Co-operative (COCC).

#### ***1. Identify the services that are most important to members (and potential members) and make these an organizational priority.***

There are a variety of services that producer co-operatives can provide their members, from marketing farm commodities to retailing farm supplies. Producer co-operatives should be

careful not to overexpand the array of services that they attempt to provide, especially if the organization has limited resources in terms of labour and capital. The focus should be on providing services that the members see as a priority, that the co-op can provide effectively, and that complement other activities already being undertaken. If a group of producers needs access to reliable and economical marketing services much more urgently than they need access to additional grain cleaning services, it likely would be reasonable to make organizing or jointly acquiring such marketing services a first priority.

*2. Carefully evaluate marketing options, in particular the benefits and costs of value-added versus bulk organic commodities.*

Some producer marketing co-operatives have attempted to engage in value-added activities in order to realize increased returns to producer members and investors. While value-added activities can increase economic returns, these activities typically require significant investments in technology, training, and labour. Such investments have an opportunity cost. It is possible that available resources could be more profitably invested in more basic, primary processing and marketing activities. Co-op members should consider the various trade-offs involved, as well as the opportunities and challenges that might arise from developing value-added products and pursuing value-added markets.

*3. Identify the commodities for which producer members require marketing assistance and the particular mix of commodities that is most reasonable, given the capacities of the organization.*

Producer marketing co-operatives should consider which commodities they want to market for their producer members. Identifying potential market opportunities and understanding the needs of members are important first steps. Successful marketing co-operatives make choices about what commodities to market based on the need to achieve both economies of scale and economies of scope. While economies of scale are achieved through specialization, producers and marketers capture economies of scope by diversifying their production and product offerings. Among other advantages, diversification provides a hedge against financial losses resulting from production or marketing problems associated with specific commodities. Diversification may also make a marketing organization more successful, given that it can supply potential buyers with an array of related organic products.

While some groups may be willing to market almost any product, the marketing of specialty or niche-market products has its challenges. It may mean dealing with small buyers

who have financial stresses of their own, which can lead to difficulties for the co-op when it comes to getting full and timely payment. Product diversification may also require additional effort in terms of keeping abreast of market requirements and price movements. For these and various other reasons, a producer-marketing co-operative may want to have a diversified but nevertheless somewhat limited marketing profile in terms of the commodities it handles.

Some producer-marketing groups have organized around a specific commodity, responding to market signals by increasing or decreasing production, (re)focusing or intensifying their processing efforts, pooling product, and by keeping in close communication with buyers. Interestingly, some of the larger agricultural co-operatives in the United States focus on achieving economies of scale by attaining a significant market position in a relatively few, closely related commodities.

However, while it is potentially possible for organic producers to organize joint marketing efforts around a small number of commodity lines, this is rendered less likely by the present structure and relatively small size of the sector. It is also constrained by diversity in producer preferences and in local farming conditions. Moreover, given their commitment to agroecological principles and their reliance on crop rotations to maintain fertility and to prevent insect pest or weed species buildup, there is an inherent tendency for organic farms to be more diversified than neighbouring operations pursuing more conventional agronomic strategies.

#### *4. Consider multistakeholder co-operative models that include interested community members and employees as participants and investors.*

Some co-operatives have been exploring multistakeholder models that allow key employees and supportive community members to invest in the organization, and also to participate in its governance structures. Multistakeholder models create ownership opportunities for additional categories of people with various links to the organization, and they serve as an identity-building tool that helps develop loyalty and support among employees and local backers. The social capital benefits of such a model can augment the profile of the organization in the community and in the market that it serves, further reinforcing both the connections and the brand of the co-operative enterprise.

Multistakeholder co-operatives that permit up to three classes of membership — users, employees, and community supporters — have become a popular vehicle for social entrepreneurs and community economic development in Quebec. In Europe, these kinds of organi-

zations are called social co-ops. In Quebec they are called solidarity co-ops and are the fastest growing type of co-operative in terms of new startups. Such arrangements can offer important advantages, but multistakeholder models lack visibility and recognition in Saskatchewan. Nevertheless, while there is no specific legislation encouraging and enabling this kind of co-operative, there do not appear to be any serious legal barriers to the establishment of such enterprises.

A multistakeholder approach can provide a co-operative with important additional sources of capital. For example, Organic Valley has developed a loans program that it uses to borrow money from co-op supporters looking for an ethical investment that yields a reasonable rate of interest. This Wisconsin-based co-op also switched to “521 status,” which allows it to sell preferred stock to its supporters (Baker 2002). In a similar way, Community Mills Co-operative in Saskatchewan has used the NGC co-op model to acquire nonmember investment from community members and supporters of organic food production.

Another reason to consider some form of multistakeholder approach is that the loyalty and trust that such models generate can help to mitigate potential labour relations and principal-agent problems. If key employees are included in the ownership structure and/or provided with rewards that are tied to the success of the organization, they are less likely to behave in opportunistic ways. Again, although it is not a true multistakeholder co-operative (only farmers are eligible for membership), Organic Valley is an example of an agricultural processing and marketing co-op that distributes surpluses not only to its producer members but also to its employees and community supporters. According to its website, Organic Valley allocates 45 percent of its profits to farmers, 45 percent to employees, and the remaining 10 percent to the community (Organic Valley 2008).

An interesting variation on the multistakeholder co-operative model is found in Wisconsin, where a small group of dairy farmers has organized Edelweiss Graziers Cooperative and purchased the buildings and silos of an operating cheese plant. Their business plan hinges on a partnership with a master cheese-maker (who owns the plant equipment) and a marketer who has expertise in commercializing quality, artisan cheeses. The co-operative is organized under a new Wisconsin state law that allows investors to be members of value-adding co-ops, albeit with majority control remaining in the hands of the (farmer) patrons.

*5. Set membership fees to cover a majority of start-up capital costs (member fees should not be nominal) and provide for other methods of member investment.*

There are a number of things that organizers must consider when calculating initial member investment in a co-operative: projected cost of the facilities, estimated volume of business, cash flow requirements, projected number of members, and their volume of production or use of the business (Rapp and Ely 1996). Organizers should aim for a membership fee structure that generates significant start-up equity and promotes member commitment, but without creating unnecessary financial barriers to joining the co-op. For this reason, the group might also consider other investment options such as preferred stocks or investment certificates that allow individuals with the means to make a larger investment. These types of financial vehicles will limit the amount of (third party) debt financing that the group requires. While some debt financing is required for most co-op start-ups, the USDA suggests that “Members should contribute equity capital amounting to at least half the total capital requirements” (Rapp and Ely 1996). This ensures that the co-operative’s debt-to-equity ratio is less than one.

*6. Recognize the role and importance of the marketing agent, and make appropriate provisions with respect to both compensation and organizational resilience.*

The marketing agent role is vital to the success of producer marketing co-operatives. However, it is not easy to find an individual who has the knowledge, skills, and dedication required to be a successful marketing agent. Moreover, since co-operatives and nonprofits are often financially constrained organizations, they tend to become training grounds for employees wishing to gain experience and contacts that will lead to other (more remunerative) jobs, or prepare them to set up a business of their own. Co-operatives must consider innovative ways to retain key employees, such as marketing agents, whose specialized knowledge and network of contacts make them a valuable resource. One approach is to develop a multistakeholder co-operative or profit-sharing arrangement as described above. Co-operatives might also consider developing a common marketing agency, also known as a MAC or marketing agency-in-common (see Born 2005), which links groups of co-operatives through a shared marketing agent.

Considering the risks associated with marketing, and with depending on a small number of key employees, co-operatives should also look for ways to create organizational slack — backup and recovery plans, and fallback options. Bourgeois (1981) defines organizational slack as “a cushion of actual or potential resources which allow an organization to adapt successfully to internal pressure for adjustment or external pressures for change in policy, as well as to initiate changes in strategy with respect to the external environment” (cited in Tan and Peng 2003, 1250).

Creating organizational slack in the form of redundancy is a necessary strategy for co-operatives: there should be a plan and a strategy to replace (temporarily or permanently) those employees who are responsible for performing core activities. Marketing co-operatives should consider employing and training more than one person as a marketing agent so that the knowledge and connections that the organization has gained will not be completely lost should a key employee leave the enterprise. It may be useful to encourage and train someone who has, or will develop, strong personal links to the community and to the organization. Such an individual may be less likely to leave or to take actions that impact negatively on the enterprise. However, co-ops should be open to training young women and men of all backgrounds, whether or not they have a strong (previous) link to agriculture and the locale.

*7. Provide diverse opportunities for member participation, but avoid overreliance on a small number of volunteers.*

Participation is a key to building commitment and cohesion among co-op members. While some may be ready to serve in leadership roles, other may need opportunities to learn the requisite skills. Indeed, some members may be more comfortable leading activities that require other kinds of skills and capacities. Successful co-operatives are able to draw on the diverse talents and energies of many members (and their families).

In Saskatchewan, distance can affect the ability of members to attend meetings and contribute volunteer labour time to the organization. Care should be taken to accommodate and integrate those who reside further from the co-op headquarters. The Internet and the conference calls are useful tools for sharing information and fostering participation. The Internet can also allow members to make work contributions and to maintain visibility in the organization despite geographic distance.

Regardless of distance, innovative and progressive co-operatives look for ways to engage their members and to build the organization as a support network. In this regard, a co-op will prosper to the degree that the members see each other, and the organization, as sources of valuable and trustworthy information. This implies an environment that promotes systematic collection, vetting, and sharing of knowledge, and open, deliberate, dialogue. In this regard, some of the techniques employed by the Holistic Management<sup>®</sup> organization (<http://holisticmanagement.org/index.html>) to engage and support ranching families may be worth considering.

On a cautionary note, co-operatives should avoid relying on member-volunteers as long-

term replacements or stand-ins for what should be a paid position. As the profiles suggest, some organic marketing co-operatives have relied too heavily on member volunteers. Over-reliance on the contributions of a small number of volunteers can lead to volunteer burnout and may cause them to exit in search of less taxing opportunities. As a result, the organization might be left with gaps in key skill sets that lead the enterprise to under-perform. Additionally, if a co-op relies too heavily on voluntary member contributions, there is an increased likelihood that influence-cost problems might arise.

*8. Establish links with other co-operatives and share product knowledge with food-sector decision makers.*

In Saskatchewan and across Canada there are co-operatives involved in the marketing, processing, or retailing of organic foods. Producer marketing co-operatives are well positioned to develop linkages with other co-operatives. They can link with retail co-operatives to market organic commodities and value-added food items, and with dairy and livestock co-operatives to market their feed grains. They can also link with other marketing co-operatives to outsource cleaning and processing, or possibly to develop marketing strategies under a common brand or certification regime (e.g., Farmer Direct's fairDeal program). One example of co-operation among co-operatives in the organic sector is Farmer Direct's relationship with Organic Valley, a large dairy co-operative headquartered in Wisconsin. Organic Valley has not only purchased feed grain from Farmer Direct, it has also mentored Farmer Direct managers, providing advice on how to build a strong co-operative. Another example of co-operation among co-ops is the Prairie Red Fife Co-operative's relationship with Community Mills Co-operative in Maymont. Community Mills cleans and processes Red Fife wheat before it is marketed to artisan bakers and health food stores.

It is important for producer-marketing co-operatives to build linkages with co-operative retailers, both large and small. This will require developing contacts and sharing ideas with key personnel. Federated Co-operatives Ltd. (FCL) supplies approximately 235 member co-operatives (many operating more than one grocery store) across western Canada. This includes member retails in many rural communities and in urban centers such as Calgary, Saskatoon, Regina, Prince Albert, Red Deer, and Medicine Hat. FCL also operates seven feed plants that produce feed for livestock and poultry.

There are dozens of organic and natural food retail co-operatives across Canada. Many have quite sophisticated approaches to marketing and communicating with their members.

The Ontario Natural Food Co-op is a wholesale buying co-operative, headquartered in Mississauga, Ontario, with members that include retail co-operatives, food buying clubs, and other retailers. Karma Co-op in Toronto retails organic and natural food products. The Big Carrot Natural Food Market, also in Toronto, is a worker co-operative that retails organic food products. Kootenay Co-op in Nelson, British Columbia, retails organic and natural health foods. Steep Hill Foods Co-op is an organic and health food retailer in Saskatoon. Neechi Food Co-op in Winnipeg is positioned to serve many members who are part of the growing urban Aboriginal population.

Many of Canada's cities have at least one such co-op and there are many more health food outlets and restaurants serving organic foods. Sourcing healthy, organic, and local foods has become an important strategy for many eating establishments. One way for a marketing co-op to make its products visible is to work with bakers and chefs who may agree to feature its items and identify the source in their store or restaurant. This is a marketing approach that may require the sharing of information — about recipes, cooking characteristics, and nutritional qualities, for example. It is important that farmers and their marketing agents become well informed about such matters so that they are in a position to communicate the knowledge and impart the skills that may be required in order to integrate these products into diets, menus, and ingredient lists. Knowledge and skills are keys to changing food practices, and neither can be taken for granted (Jaffe and Gertler 2006).

It is also important to develop connections with institutional kitchens, caterers, and food brokers, who are increasingly influential when it comes to food consumption. All across North America, school and university food services, hospital kitchens, and other large-scale, commercial food preparation enterprises are under pressure to feature foods that meet multiple criteria of quality — including food safety, environmental stewardship, and fairness to farmers and workers in the agri-food chain. Growing numbers of young people, many of whom attend schools, colleges, or universities, have opted to eat lower on the food chain (e.g., as vegetarians) and are interested in the provenance, nutritional qualities, and the ecological footprint of the foods they consume.

*9. Reduce exposure to market risks by pooling, using management tools such as export insurance, and developing relationships with multiple, trustworthy traders.*

Co-operative or producer-owned marketing organization can serve their members by managing and pooling market-related risk. For example, co-operatives can pool member risk by

creating a fund to which each member contributes in order to cover any losses that an individual producer might incur from problems related to a bad sale (e.g., where the buyer defaults on payment or where delivery is prevented by unforeseen circumstances related to weather or border regulation issues).

Co-operatives can also purchase export insurance to protect against nonpayment on export sales. This is especially important since sellers have little recourse with respect to buyers from overseas, especially once the product has been shipped. As indicated previously, EDC can provide marketers with export insurance on their products, and STEP provides export financing that reduces the time between sale and payment. Arranging for such insurance coverage and financial assistance is a service that a co-operative can efficiently provide to grower members.

Producer-owned marketing co-operatives need to develop trustworthy relationships with grain buyers and traders in order to assure market access and reliable, timely payment. Such relationships may be reinforced by a common or shared identification with an environmental or co-operative philosophy, but it is best to build such relations by stages, as a foundation for mutual confidence and trust is strengthened through repeated successful transactions. Farmer Direct's relationship with Organic Valley is an example of an enduring marketing relationship that started from a shared identification with the logic of co-operation and fair pricing for farmer-members. However, producer-marketing organizations have also been shaken when one or a few key buyers either shut down operations or established relationships with other suppliers. As reported in Chapter 4, the loss of a key European grain buyer was a factor in the bankruptcy of the Girvin Co-op. Given that even longstanding and trusted relationships are not immune from organizational failures, or from market and regulatory changes, it may be wise to develop several marketing channels and to engage with multiple buyers for any given commodity.

*10. Treat all customers, employees, and members fairly and equitably.*

A co-operative will gain a well-earned reputation for straight dealing and fairness if it consistently looks for ways to assure that all parties are treated fairly and in a reasonable and equitable manner. While this has implications for pricing of products and for the payment of people who work for the co-op or who supply services under contract, it also means serving members in ways that meets high standards of fairness. The legitimate interests and claims of member-owners must be taken into consideration — including their need for income. The

equitable sharing of advantages and burdens associated with the enterprise must be assured. Even the suspicion of unfair or unjustifiable preferential treatment may damage the organization by undermining trust and goodwill. Care should be taken in setting out the operating rules and in making certain that the right thing is both done and seen to be done. While equitable treatment does not necessarily always imply identical treatment, arrangements must be fair to all stakeholders. This is a complex challenge requiring open discussion and appropriate controls, but also some flexibility, forbearance, and trust.

Members can make many kinds of contributions to a co-operative marketing organization. They can participate financially through share purchases and loans; they can market their grain through the co-op; and they can contribute ideas, time, and know-how. It is important for the organization to acknowledge in-kind contributions, including expertise, tools, and volunteer labour. It is also important to have a plan with respect to contributions of time and skills. Will weekly or monthly work contributions be expected? How will this be scheduled to deal with peak demand times in the plant and on the farm? What will be done with respect to members who cannot or choose not to meet these obligations?

Despite strong rural traditions of mutual aid and self-help, and despite the goodwill and cohesion that it can generate, reliance on volunteer labour also introduces various organizational challenges. These include potential problems related to exertion of undue influence, and problems of quality control related to a lack of effective monitoring, inconsistent practices, and gaps in co-ordination. Problems in these categories do not disappear, of course, just because an organization hires staff. Issues related to volunteer mobilization and co-ordination may remain important even in an enterprise that relies mainly on hired workers and only a relatively small amount on in-kind contributions by its members. In every co-operative and similar complex organization, issues of authority and responsibility, and issues related to the fair allocation of costs and benefits, must be recognized, negotiated, and resolved.

### *11. Share the stories of the organization and its producer members.*

Food production and marketing chains that effectively communicate relevant information, demonstrate greater transparency and accountability, and reduce the (social) distance between producers and consumers, are experiencing commercial successes in the contemporary context. It is important to embed products with information that builds consumer trust and addresses issues of quality, safety, social justice, animal welfare, and environmental impact

that have become important to many people. Organic certification and other information relating to product sources and production methods are useful and valued. Telling the stories of the enterprise and the people involved is an increasingly important element of the marketing strategies of organic processors and marketers.

As Michael Pollan indicates in *The Omnivore's Dilemma*, the industrial organic sector — what he refers to as “Big Organics” — uses retail-formatted stories to attract consumers to their products. This supermarket storytelling generally uses images or phrases that elicit romantic notions of small family farms where care and attention to product quality are paramount. There may also be an attempt to depict a production system that is sustainable and closely linked to local surroundings. Of course, this information is notable for what is omitted as much as for what is included. Issues of corporate power, farm structure, labour relations, and certain details related to actual field conditions and practices are conveniently left out or glossed over.

Small, producer-driven, co-operatives should have a natural advantage in terms of this sort of marketing. As a form of enterprise, co-operatives have a long history with the organic movement in North America. Indeed, many of the first organic retailers were organized as food co-ops. Producer marketing and processing co-operatives can also highlight their regional presence and commitment to real places (e.g., by including place names in their organizational title and describing their links to local businesses, civil society organizations, and conservation initiatives). Moreover, they can emphasize producer ownership and feature real stories of farming households (e.g., on their Internet sites) as a way to develop stronger, more positive associations with consumers. Sharing the co-op's stories in this way allows them to differentiate themselves from the industrial organic sector that seeks to dominate supermarket aisles.

*12. Plan for the development of the business and the organization by engaging with member-owners in ways that highlight the co-operative difference and promote member development.*

Successful and effective organizations have a strong vision that provides direction for organizational decision making and planning. A good strategic plan should include measures to accommodate growth and options for scaling-up processing and marketing capacity to meet changes in supply and demand.

Members must be served reliably and not made to wait inordinately long for handling

and processing of crops, and for access to markets. This implies having adequate plant capacity but also taking measures to maintain some degree of balance between producer capacity and willingness to deliver (supply) on the one hand, and market outlets/sales (demand) on the other.

While co-operatives may be better equipped than some other forms of enterprise when it comes to weathering downturns and taking the long view in terms of enterprise development, they must institute informal and formal ways of gathering intelligence on member concerns and expectations, and on other aspects of their changing business environments. Sharing information with members and using members as a network for generating, refining, and sharing ideas can be a key “co-operative advantage.” Moreover, failure to engage with members, and to work with them in ways that respect and develop their diverse capacities, may lead to disaffection and the undermining of loyalty and cohesion.

### **Opportunities and Challenges**

Currently, there are well over a thousand organic producers growing and marketing field crops in Saskatchewan. From the numbers reported or suggested by organizations participating in this study, the research team estimates that approximately two hundred of these organic field crop producers are members of an organic marketing co-op. Considering that less than two decades ago nearly every field crop producer in the province was a member of the Saskatchewan Wheat Pool (more than fifty-thousand members), there is certainly potential for existing and new organic marketing co-operatives to grow their membership.

Of course, the context of the organic sector today is quite different from the (largely conventional) agricultural sector in which the SWP operated. Organic producers are scattered in pockets across the province and their numbers are too small to support anything closely resembling the horizontally and vertically integrated network of cleaning, processing, and handling facilities that the Pool operated in the province. Nevertheless, with buy-in from enough organic producers, there is potential to support and develop a number of locally or regionally owned cleaning and processing plants that handle organic field crop products supplied by producer members located in many parts of the province.

At this time, there is one regional organic cleaning and processing co-operative in Saskatchewan — Northwest Organic Community Mills Co-operative located in Maymont. There is also a co-operative cleaning plant in Lake Lenore, SK, which has been certified to

handle organic field crops; however, it has been reported that this co-op primarily deals with conventional field crops. Given the distribution of these co-operatively owned plants, and given growing numbers of potential producer members, there would seem to be ample room for further developing producer-owned, organic field crop handling facilities in the southwest and southeast, and possibly also in the northeastern portions of the province.

It is possible that one or several additional cleaning and processing plants could be organized by one or more new and/or existing marketing co-operatives. It is also possible that a number of co-ops across the province might come together to create a Nourse-like federation of locally owned marketing co-operatives that help producers realize economies of scale in their marketing activities. Such a federation might, for example, take on some of the characteristics of Born's (2005) proposed marketing agency-in-common.

Farmer Direct's fairDeal program is a framework that helps producers to realize increased margins without undertaking further investments in processing capacity. The fairDeal program creates a more transparent organic food supply chain that provides consumers with information about the product, the producer, and the producer's share of the transaction. Since many consumers want to purchase products that are produced by family farmers using sustainable farming practices, this system adds value to retailed products. Farmer Direct is helping to establish an expanded domestic Fair Trade system and would no doubt welcome additional participants. It is also possible that producers who are not members of Farmer Direct will be able to join their fairDeal program — either as individuals or through their affiliation with other marketing co-operatives that come to be associated with this system.

It is important to acknowledge that there are also obstacles that may hinder the ability of producers to form new co-operatives or to establish linkages with existing co-operatives and producer groups. Some of these obstacles stem from individual perspectives and understandings with respect to what is feasible and desirable in terms of business arrangements. In Saskatchewan, as elsewhere in North America, co-operative failures and/or conversions have, in some instances, weakened producer and institutional confidence in the co-op model. This was apparent in the switch to new forms of ownership and investment that occurred during the 1990s, for example, as farmers adopted various forms of investment share-based ownership (including joint-ventures with multinational grain trading companies) to develop inland grain terminals (see Herman 2003).

Of course it is arguable whether such ownership forms have reliably served the interests

of producers — both individually and collectively. Conventional investor-oriented and joint-venture arrangements come with potential tradeoffs in terms of barriers to participation, farmer control, local control, and retention of profits in the local economy. Moreover, commercial success is not guaranteed despite investments by corporations and individuals, and despite sometimes generous government subsidies in the form of grants and credit arrangements (and even direct investment as in the case of the pig barns operated by Big Sky Farms). Furthermore, rather than stemming from intrinsic weaknesses in the co-operative model, some of the co-op failures and conversions that may have disenchanted producers can be traced to poor strategic planning, to managers who were not oriented towards co-operative enterprise, and to uncertainties regarding markets and regulatory environments.

Some reticence concerning co-operatives is often evident in government agencies as well as banks, accounting companies, and legal firms. Doubts about the effectiveness and practicality of co-operative approaches to agribusiness development may be subtly or overtly expressed. This can make it more difficult for producer groups to get financing or assistance from public agencies or business services providers. In some instances, what support there is has been tied to one particular type of co-operative; over the last two to three decades the NGC model has been a favourite for governments and commercial lenders in many North American jurisdictions.

Some public and private sector organizations have been attracted to the NGC because it typically involves value-adding processing activities and requires more substantial investments by producer members who are also tied to the organization through raw product deliver agreements. As well, the NGC model also tends to involve professional managers who direct day-to-day operations and are influential in many other aspects of enterprise management and development. Overall, the NGC is a more corporate-oriented form of producer co-operation.

While there have been some remarkable NGC success stories, adoption of this model has not necessarily guaranteed successful start-ups. One of the significant patterns that has developed, in fact, even among NGCs that have achieved a certain measure of success, is eventual conversion to a conventional corporate form of enterprise. Where the business is reasonably successful, farmer-shareholders may succumb to corporate offers to buy out their shares. NGC shares may also be sold under duress (and at a discount) if the co-operative encounters financial problems. In either case, the NGC becomes a vehicle for further corporate control of processing and marketing activities. Moreover, farmers lose control of an enterprise that

was created to ensure access to the knowledge and organizational resources that are needed to guarantee fair treatment in the marketplace.

The challenges for those who wish to organize a marketing co-operative to serve themselves and other producers are not merely philosophical, political, financial, or institutional. Other issues stem from the demographic, geographic, or structural characteristics of the organic sector. Many farmers, for example, are at an age or life-stage where they are considering strategies for extricating themselves from — and extracting capital from — their operations rather than increasing their equity commitments and exposure to risks. Such producers are likely to be reluctant to make significant new investments in potentially risky agricultural enterprises, especially investments that lack liquidity.

Organic producers are also divided in terms of location, scale, and the commodities they produce. Organic producers are scattered across the province, something that could make it more difficult for a large group of producers to choose a location for a new plant. The challenge of reaching agreement on where to establish co-operatively owned facilities may be compounded by different preferences with respect to facility type and services: organic producers may have different needs and priorities based on the commodities they produce or on the scale of their operations. Furthermore, in some cases where there are clusters of organic producers, they may already be served by a co-op or a trusted IOF so there may be some reluctance to consider new arrangements. Others have developed their own specialized marketing channels and relationships and may be uninterested in other arrangements, especially if this means sharing market intelligence, contacts, and access.

While the organic sector is no longer widely seen as a marginal movement and a refuge for people with unusual perspectives on ecology and agronomy, it remains somewhat internally divided in terms of farming approaches and marketing philosophies. Fragmentation has also occurred along institutional and organizational lines: organic farmers were and remain divided, for example, on issues related to the roles and practices of the Canadian Wheat Board. There are also potential divisions stemming from affiliation with different certifying bodies and organizations.

Provincial, national, and international organic producer groups have provided information-sharing opportunities and support for farmers with various perspectives on production or marketing. Despite much good will and willingness to share, there have been occasional tensions around issues such as the specifics of national certification programs, appropriate roles for governments, and appropriate public positions for sector organizations. Differing

identities and orientations can be organizing tools for small POFs, but they can also constitute a barrier when it comes to rallying larger numbers of organic producers around common projects.

### **Some Concluding Thoughts**

Although it is easy to identify many challenges confronting any attempt to organize a co-operative to process and market organic field crops, there are also strong signals that such organizations are both feasible and needed. Co-operatives are already important players in many parts of the organic sector, and there are successful examples of marketing co-operatives serving the needs of organic livestock, dairy, and field crop producers. Recent innovations in the organization of co-operatives, and in the techniques used to build and maintain strong co-operative organizations, provide important lessons and models that can be adapted and further refined.

The need for co-operative action is underlined by growing power differentials in the sector. Canadian organic farming operations of moderate size, based primarily on family labour, face intensifying competition from industrial-scale production elsewhere in North America. They also face competition from international operations based on large-scale commercial plantations or on contracting arrangements that involve farms of various sizes in subordinate relationships with packer-shipper integrators. At the retail end, the organic sector is likewise expanding but is being radically reorganized by the aggressive entry of the retail chains. Some of these have organic corporate private-labels.

All present a challenge to Saskatchewan organic producers, who will need organizations that can provide trustworthy information and advice, and organizations with the capacity to identify and develop alternative markets. They will also need organizations strong enough to bargain effectively and capable of dealing in much larger volumes than can be produced by a single farmer. The potential gains from co-operative action are social as well as economic: organic farming can be an attractive lifestyle for producers to the degree that it situates them within a community of practitioners who share important societal projects and are able to engage in significant, mutually advantageous initiatives.

This kind of co-operative organizational capability will not be given to organic farmers and cannot be bought; it must be custom constructed to fit the context, with the user-owners as designer-builders. There are risks associated with organizing or reorganizing any co-operative enterprise, but inaction and the absence of producer-led organizations also carry risks, some of which are already quite apparent.

## Appendix A: Interview Consent Form

You are invited to participate in a study entitled  
**Co-operative Marketing Options for Organic Agriculture.**

**Researcher:** Jason Heit (graduate student) / Phone: 306-966-8502

**Research Supervisor:** Dr. Michael Gertler / Phone: 306-966-8501

**Purpose and Procedure:** We are seeking your responses to some questions about the marketing of organic grains, oilseeds, and/or pulse crops. You have been selected because of your position with [organization]. This research project is co-ordinated by the Centre for the Study of Co-operatives (Michael Gertler, Research Supervisor), University of Saskatchewan, in partnership with the Canadian Organic Certification Co-operative. Principal funding for this project has been provided by the Government of Canada's Advancing Canadian Agriculture and Agri-Food Saskatchewan (ACAAFS) program. The results of this research will be made available to the public, free of charge, on the Centre for the Study of Co-operatives' website.

The purpose of the research is to explore co-operative marketing options that could be used by organic grain, oilseed, and pulse crop producers in Saskatchewan and the Prairie Provinces. This research will provide information useful to organic producers and groups interested in co-operative marketing alternatives.

Your participation in this study is completely voluntary. It is expected that the interview should last between 45 and 90 minutes. A follow-up interview (of shorter duration) may also be requested of some participants, inviting the interviewee to elaborate upon information shared in the initial interview. You are free to withdraw from the study at any time should you feel uncomfortable or at risk. All interviews will be digitally recorded and you have the right to shut off the recorder at any time. You should also feel free to decline to answer any particular question(s). Should you choose to withdraw from the study, no data pertaining to your participation will be retained.

Once the interview has been completed and the interview data has been transcribed, you will be presented with an interview transcript for your review. When you have reviewed the transcript, you will be invited to complete an Interview Transcript Release Form (Appendix B) indicating that you have had the opportunity to add, alter, or delete information as you see fit, and declaring how you would prefer to have your comments attributed.

**Potential Risks:** The research team will make every effort to preserve the confidentiality of your comments (see below), but you should be aware that controversial remarks, in the unlikely event they are associated with you, could have negative consequences for your relationships in the organic or co-operative sector(s). The research team will make every effort to ensure that your identity is protected in the ways described below. If for some reason the research team wishes to quote you directly, we will seek your permission beforehand.

**Potential Benefits:** While for some participants there may be no personal benefit from participating in this research, your participation will help document the experiences of organizations marketing organic commodities in the Prairie Provinces of Canada and in the Great Plains region of the United States. It will also contribute to the development of new options for joint marketing of organic products.

The research will assist organic producer and marketing groups to learn about the challenges and possibilities relevant to marketing initiatives. It will contribute to better understanding of the issues confronting organic producers who seek to participate more directly in the marketplace, and to support appropriate choices with respect to organizational development in the sector.

**Storage of Data:** Transcripts and original interview recordings will be securely stored by the research supervisor at the Centre for the Study of Co-operatives for a period of at least five years. The interview consent forms and transcript release forms will be stored separately from the transcripts and recordings.

**Confidentiality:** Your interview will be transcribed by a member of the project research team at the Centre for the Study of Co-operatives or by a confidential secretary. After your interview, and prior to any data being included in any project publication, you will be given the opportunity to review the transcript of your interview, and to add, alter, or delete infor-

mation as you see fit. Interview transcripts will only be seen by the research team.

The research conclusions will be published in a variety of formats, both print and electronic. These materials may be further used for purposes of conference presentations, or publication in academic journals, books or popular press. In these publications, the data will be reported in a manner that protects confidentiality and the privacy of participants. Participants will be identified without names being used, giving minimal information (for example, what co-op they are affiliated with and whether they are board members or management, if this information is relevant). Pseudonyms or composite profiles may be used to further disguise identities as appropriate and in accordance with your own preferences as expressed in the transcript release form, which will be presented for your approval once you have reviewed the typed transcript of your interview. Generally, actual names will not be used; however, leaders whose position involves speaking on behalf of an organization may be asked if certain comments they have made can be attributed to them by name. Any communication of these results that has clear potential to compromise your anonymity will not proceed without your approval.

**Right to Withdraw:** You may refuse to answer any individual question, if you so choose. Although the interviews will be digitally recorded, you may request that we turn off the recorder (or take a break) at any time. You may withdraw from the study for any reason at any time. If you choose to withdraw from the study, any information that you have contributed will be deleted. You will be informed of any major changes that occur in the circumstances of this study or in the purpose and design of the research that may have a bearing on your decision to remain as a participant.

**Questions:** If you have any questions about the study, please feel free to contact the researcher or research supervisor at the numbers provided above.

This study was approved on ethical grounds by the University of Saskatchewan Behavioural Sciences Research Ethics Board on 15 August 2007. Any questions regarding your rights as a participant may be addressed to that committee through the Ethics Office at (306) 966-2084. Participants living outside of the Saskatoon area may call collect.

**Consent to Participate:** I have read and understood the description provided above; I have been provided with an opportunity to ask questions and my questions have been answered

satisfactorily. I consent to participate in the study described above, understanding that I may withdraw this consent at any time. A copy of this consent form has been given to me for my records.

\_\_\_\_\_  
(Signature of Participant)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Signature of Researcher)

\_\_\_\_\_  
(Date)



## ENDNOTES

1. A brief profile of the COCC is provided in Chapter 2 of this report.
2. For the sake of brevity, these crops/commodities are also referred to collectively as organic grains elsewhere in this report.
3. A copy of the Interview Consent Form is included in Appendix A of this report and a copy of the Transcript Release Form is included in Appendix B. Interviewees were asked to indicate how they wished to have their comments attributed. They could choose to have some or all of their remarks attributed to them by name, pseudonym, or anonymously (e.g., a member stated... or, an employee commented...). Interview responses cited in this report have a footnote indicating a corresponding numbered interview transcript from which the information was sourced. In order to help preserve the anonymity of study participants, each interview transcript has a minimum of two randomly assigned numbers that correspond to it.
4. Through a joint initiative of producers and urban consumers, the Saskatoon Farmers' Market Co-operative was established in 1973. Like most farmers' markets in the province, it is organized as a nonprofit co-op.
5. In 2005, the University of Saskatchewan's Department of Agricultural Economics published the findings of their Project on Organic Agriculture. The *Organic Marketing Study* conducted by Ferguson, Weseen, and Storey consists of twenty short papers that discuss many aspects and dimensions of Saskatchewan's supply chain for organic field crops. Findings presented in this *Organic Marketing Study* can be accessed online at <[http://organic.usask.ca/Marketing study.htm](http://organic.usask.ca/Marketing%20study.htm)>.
6. Interview transcript 21.
7. Ibid.
8. A Producer Direct Sale (PDS) "is completed by performing a transaction where the wheat is sold on paper to the CWB for the pooled price and bought back by the producer for the CWB asking price in the country that the wheat is destined for" (Ferguson et al. no. 6, 2).

9. Wild Oats Markets formerly owned Capers Community Markets. These Canadian stores, along with many other Wild Oats stores located across the US, are now owned by Whole Foods Markets following its acquisition of Wild Oats Markets in August 2007.
10. Information for this section was sourced from Jason Heit's (2007) MA thesis titled "Organizational Choice and Behaviour: A Framework for Analyzing Decision-Making in Co-operative Organizations."
11. Interview transcript 11.
12. Ibid.
13. Ibid.
14. Interview transcript 21.
15. Interview transcript 11.
16. Ibid.
17. Ibid.
18. Ibid.
19. A falling number test is performed on wheat to indicate whether the grain is suitable for making bread. The falling number test measures the effects of an enzyme that breaks down starch in the grain. The enzyme is present in grain that begins to germinate in the seed head as a result of excessive or untimely rain during the harvest season. Generally, for wheat, a falling number greater than 300 is suitable for bread making and a falling number greater than 250 is acceptable for other milling grades.
20. Interview transcript 21.
21. It is also likely that the plant manager also performed some marketing duties; however, it is unclear to what extent the plant manager may have been involved in marketing member grain.
22. Interview transcript 11.
23. Interview transcript 21.
24. Interview transcript 11.
25. Interview transcript 16.
26. The researchers did not obtain information regarding the number of board members or the length of their terms.
27. A *Western Producer* article from 1999 refers to the Marysburg group as a co-operative with sixty-nine members (Raine 1999). A later article refers to the organization as a limited company with forty-six (producer) shareholders (Pratt 2005).
28. Interview transcript 14.
29. Interview transcript 13.

30. Interview transcript 14.
31. Interview transcript 26.
32. Interview transcript 14.
33. Interview transcript 26.
34. Interview transcript 14.
35. Ibid.
36. Interview transcript 26.
37. Interview transcript 13.
38. Interview transcript 14.
39. Interview transcript 27.
40. Ibid.
41. Interview transcript 22.
42. Interview transcript 15.
43. Ibid.
44. Interview transcript 28.
45. Interview transcript 17.
46. Interview transcript 28.
47. Interview transcript 15.
48. Interview transcript 25.
49. Interview transcript 15.
50. Ibid.
51. Interview transcripts 25 and 28.
52. Interview transcript 12.
53. Interview transcript 25.
54. Ibid.
55. Ibid.
56. Interview transcript 15.
57. Interview transcript 12.
58. Interview transcript 28.
59. Interview transcript 19.

60. A *Western Producer* article from 2003 indicates that the co-op paid \$16,000 for the former school building (Morrison 2003). Interview respondents indicated that the amount was \$20,000.
61. Interview transcript 19.
62. Ibid.
63. Interview transcript 32.
64. Interview transcript 33.
65. Interview transcript 18.
66. Ibid.
67. Interview transcript 33.
68. Ibid.
69. Interview transcript 34.
70. Interview transcript 33.
71. Interview transcript 37.
72. Ibid.
73. The different types of Nourse and Sapiro co-operatives are discussed in Chapter 3. This discussion also indicates why these different co-operative types are referred to as Nourse and Sapiro co-operatives, respectively.
74. Influence-cost problems arise when co-op members use influence/power to gain preferential access to opportunities. Influence activities include such things as seeking special treatment from employees, or using organizational resources for personal gain. For further discussion of these problems see Chapter 3.

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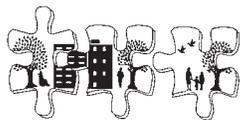
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