

WHAT IS A COOPERATIVE?

The U.S. Department of Agriculture (1991) defines a cooperative as a user-owned and user-controlled business from which benefits are derived and distributed equitably on the basis of use or value. This definition highlights the hallmarks of a cooperative business model: user-owned, user-controlled, and equitable distribution of benefits (Zeuli, 2006). Understanding these three hallmarks and their implications is important for individuals considering forming a cooperative. Cooperatives are “user-owned” because members traditionally contribute their own capital toward the financial solvency of the business. The equity contribution of each member should ideally be in equal proportion to that member’s use (Zeuli, 2006). This shared financing creates joint ownership (Zeuli, 2006) and naturally leads to a “user-controlled” approach—i.e., interests are placed directly in the hands of the individual members. Members have voting privileges that typically grant one vote to each member regardless of their proportional investment. As such, cooperatives are frequently characterized as “bottom-up” as opposed to a traditional “top-down” business model (Zeuli, 2006; Figure 1). However, unlike voting, distribution of benefits is based on patronage. For example, in an agricultural production cooperative, if a member delivers 5% of the production volume then that member would receive 5% of the net earnings derived from the handling, processing, and marketing of the products.

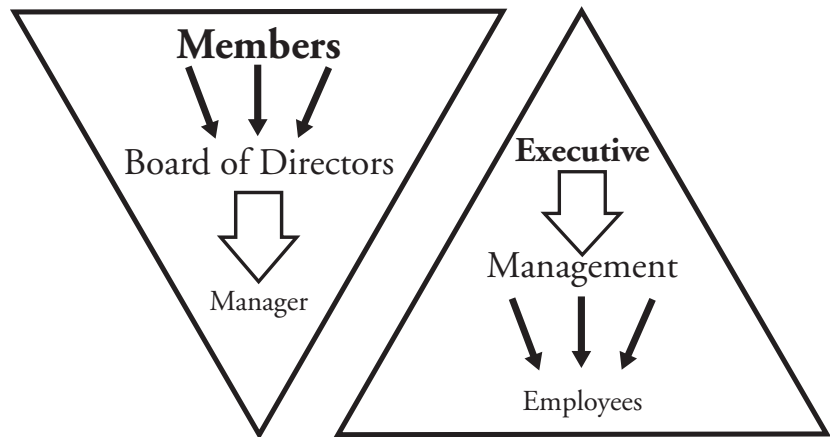


Figure 1. Conceptual organization of a “bottom up” cooperative (left) vs. “top down” stock-option corporation (right).

This approach is not only fair, easily explained, and feasible but, more importantly, is an essential incentive to garner continued participation and membership growth (Zeuli, 2006).

Historically, cooperatives performed one or more of the following functions: marketing products, purchasing production supplies, and providing services (USDA, 1991). The agricultural industry is well known for its use of cooperatives. Agricultural cooperatives are often classified by function as either production- or service-oriented. Production cooperatives pool resources such as land, machinery, and ultimately labor. A well-known example is the agricultural kibbutz system in Israel. Service cooperatives are differentiated into supply and marketing cooperatives. Supply cooperatives provide members with inputs for agricultural production

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such as seeds, fertilizer, fuel, and machinery services. Agricultural marketing cooperatives are designed to sell products. This may be achieved through negotiated prices between buyer and seller, or through collection and assemblage of similar products to achieve large volumes that can then be sold to processors, wholesalers, or retailers.

Cooperatives are private business corporations that are recognized by each of the 50 states' tax organizations as well as by the Internal Revenue Service. Cooperative businesses may be owned by consumers, employees, businesses, non-profits, and even governments. Examples of industries with cooperatives include housing, insurance, consumer goods, credit unions, and rural electric utilities, to name just a few.

WHAT IS A FORESTRY OR WOOD PRODUCTS COOPERATIVE?

A forestry or wood products cooperative (hereafter referred to simply as forestry cooperative) is a variant of the traditional agricultural cooperative, but with a selective focus on marketing, supply, and service issues particular to the forestry and wood products industry (Rickenbach, 2006). Forestry cooperatives come in a variety of forms that are reflective of the interests of their members, markets, processing opportunities, the conditions of the resource, and land ownership status (i.e., private vs. federal) (Ashton et al., 2008). Although less well-known as compared to an agricultural or electrical cooperative, the idea of a forestry cooperative in the United State is mature, dating back to the early part of the 20th century (Cunningham, 1947). Early forestry cooperatives focused predominately on marketing services, but processing and special purpose cooperatives, such as those that shared harvesting equipment or marketed Christmas trees and syrup, were also common (Cunningham, 1947). These early forestry cooperatives were typically located in the Northeast. Today, forestry cooperatives can be found across the country, although private-land states tend to produce greater numbers as compared to federal-land states (this term is generally applied to Western states where considerable land acreage is managed by federal agencies).

WHY FORM A COOPERATIVE?

People form cooperatives to gain access to markets or services that they cannot acquire as economically, efficiently, or effectively as individuals (USDA, 1991). Agricultural cooperatives provide well-known examples that epitomize the potential and benefit of forming a cooperative. For example, consider the individual dairy farmer in the early 1800s. Due to the relatively small size of family farms, growth was a slow process and access to value-added markets was limited. However, entrepreneurial dairy producers realized if they collaborated and combined their resources they could gain access to the cheese market, which required large volumes of milk for production. In addition, producers were able to add value by standardizing the quality and uniformity of the grade through cooperative coordination (Cropp and Graf, 2001).

Cooperatives are "formed when the marketplace fails to provide needed goods or services at affordable prices or of acceptable quality" (National Cooperative Month, 2005, p. 2). In particular, two instances characterize market failure: 1) when large numbers of buyers and sellers fail to enter the market and 2) when equilibrium prices are not reached because market prices are too high or low and are thus adversely affecting buyers and sellers, respectively. By solving market failure, cooperatives become more economically efficient.

Forming a cooperative enables the following benefits (listed in no particular order):

1. Achieving economy of scale;
2. Improving bargaining power;
3. Reducing costs;
4. Obtaining products or services otherwise unavailable;
5. Accessing, expanding, and creating market opportunities;
6. Improving product or service quality;
7. Increasing income;

8. Adding value to products;
9. Reducing risks;
10. Creating access to special credit systems (e.g., Farm Credit); and
11. Opening up unique tax advantages.

WHY FORM A FORESTRY COOPERATIVE IN NEW MEXICO?

New Mexico (NM) communities surrounded by forestlands are in need of economic opportunities. Modern forestry cooperatives have the potential to provide this support by creating unique and beneficial business environments that would not otherwise be available outside the cooperative business model. Forestry cooperatives have a history of helping people in rural communities with grassroots efforts to improve their economic potential.

Historically, NM communities surrounded by forestlands benefited economically from the local forestry industry (Keegan et al., 2001), as did forest managers who utilized the capacity of the industry to accomplish resource goals such as reducing hazardous fuel loads susceptible to crown fire. However, the economic benefit enjoyed by these communities has declined following a series of events in the early 1990s that included “decreases in stumpage availability from National Forests related to endangered species legislation, the listing of the Mexican spotted owl in 1993, and litigation directed at sales of timber from federally-managed lands” (Egan, 2011, p. 3). Today, the economic benefit arising from forestry industry employment accounts for only 0.25% of the state’s overall employment (Egan, 2011).

Gray (1962) published research on the economics of sawmill operations in New Mexico. Data for the publication were collected by randomly selecting 60 sawmill owners from a pool of 117 possible candidates and then conducting interviews and surveys. If Gray were to revisit and update his publication today he would have a pool of 4 or 5 sawmill owners to interview and survey (personal communication with NM Forest Industry Association and Brent Racher, Restoration Solutions, LLC; these



Figure 2. A small-scale sawmill in use.

sawmills are producing or have the infrastructure to produce one million board feet per year). This reduction in the number of sawmills was accompanied by a reduction in sawmill productivity—from 9.2 to 4.9 million board feet—for the first time in 26 years between 1986 and 1997 (Keegan et al., 2001). Rebuilding this lost infrastructure represents one of the greatest challenges for the NM forestry industry today. It also represents the greatest opportunity for restoring NM’s forests.

Establishing forestry cooperatives may provide a mechanism for rebuilding the industry infrastructure. Forestry in particular requires significant capital investments for procuring raw material (e.g., harvesting, skidding, and loading equipment) as well as processing raw material (e.g., sawmills, pellet mills, specially tooled equipment designed to handle small-diameter material) (Figure 2). In terms of infrastructure, achieving economies of scale through the formation of a cooperative may be the most compelling reason to consider incorporating.

Typical services and benefits provided by a forestry cooperative include 1) supplies, equipment, and services available at reduced costs due to economies of scale; 2) increased bargaining power with federal land management agencies resulting in increased access to raw material; 3) shared risk

resulting in reduced risk; 4) wood product marketing; 5) access to special credit lines such as those provided by Farm Credit; and 6) enhanced social relationships by bringing together like-minded stakeholders with similar goals who learn from their interactions with each other (Corbia, 1989; Blinn et al., 2007). Industry goals that could be addressed through a cooperative business approach include creating sustainable jobs that improve forest resource conditions, bringing economic value to rural communities, creating value-added products, and giving members a voice and means to address local forest conditions.

In a recent survey, primary participants from NM's forestry industry were asked to cite impediments to their industry (Egan, 2011). Four of the top ten impediments (federal regulation, lack of supply, environmental regulations, and environmental groups) were related to challenges faced as a result of being located in a "federal-land" state. This characterization refers to the relatively greater proportion of lands administered by the federal government as compared to private ownership. For example, in NM the U.S. Forest Service manages nearly half of all forestlands while private entities, including Indian Trust land, account for 38% (Eagan, 2011). Overcoming impediments associated with federal land management may be facilitated by forming cooperatives. In addition, forestry cooperatives in NM could take advantage of their proximity to federal lands by seeking funding from the Collaborative Forest Restoration Program as well as the Collaborative Forest Landscape Restoration Fund. These funds are awarded on a competitive basis to collaborative forestry groups proposing projects related to forest restoration. Collaboration between forestry cooperatives and federal management agencies in NM could provide an avenue for making management economical and sustainable. Examples of collaborative efforts between stakeholders and federal agencies in NM to restore forests and watersheds include the Gallinas Partnership and the Estancia Basin Watershed and Forest Health Restoration and Monitoring Project. Although these examples do not involve cooperatives, they do demonstrate the potential for partnership.

HOW TO START A COOPERATIVE

Each state has legal requirements or statutes that businesses must follow in order to incorporate. In NM, the Public Regulation Commission administers the Corporations Bureau, which is responsible for registering corporations. Guide Z-118, *Regulatory Steps Necessary to "Cooperate" in New Mexico* (http://aces.nmsu.edu/pubs/_z/Z118.pdf), provides information on the legal requirements needed to incorporate a cooperative.

Beyond the legal requirements required by NM statutes, getting a cooperative started might involve the following general steps (adopted from Rapp and Ely, 1996):

1. Invite would-be members to meet and discuss the potential for a cooperative; discuss their needs, explore niche opportunities, and determine potential use; evaluate interest and form a steering committee if appropriate;
2. Conduct a written survey of potential members to further quantify need and potential use; meet to discuss results and proceed if appropriate;
3. Conduct feasibility study (analyze markets, supplies, and services); meet to discuss results of study; proceed if appropriate;
4. Prepare a business plan;
5. Prepare legal papers and incorporate;
6. Create and adopt bylaws; elect board of directors;
7. Conduct a membership drive;
8. Acquire capital or investment funds;
9. Hire management and employees; acquire facilities and equipment as appropriate; and
10. Begin operations.

As with any startup business idea, a critical evaluation of its viability is prudent. Forming a cooperative is no exception to this rule. The first three steps

to consider when exploring a cooperative, as highlighted previously, encourage a cautious approach.

STARTUP TIPS FROM FORESTRY COOPERATIVE MEMBERS

The following tips, experiences, and recommendations come from forestry cooperative members from across the United States. Members from various cooperatives published their experiences with the intent to assist like-minded individuals in their pursuit of a successful forestry cooperative. Many of the experiences listed below are adapted from Eve et al. (2008). They are listed in no particular order.

- Develop a clear mission and vision. Dedicate considerable time to developing and refining these ideas. In successive years, be prepared for the mission and vision to change as the cooperative matures and grows.
- Set attainable goals (for one, three, and five years). Be careful not to promise too much too soon.
- Identify local issues and consider how your cooperative can best respond.
- People are important. Successful cooperatives are characterized by a core group of dedicated members with diverse skills such as leadership, marketing, grant writing, and business management, as well as forestry field knowledge (e.g., felling, hauling, processing raw material).
- Consider limiting the size of initial group. Expanding too quickly can create unnecessary complexities.
- Seek trustworthy members. This is an essential characteristic for core members.
- The maintenance of a profitable cooperative business practice often calls for outside assistance. Establish working relationships with forestry professionals (e.g., Cooperative Extension Service personnel, New Mexico Forest and Watershed Restoration Institute, State Forestry, State Land Office, university faculty, U.S. Forest Service).
- Start with small steps. Test ideas, evaluate responses, and adapt accordingly.
- Seek external funding.
- Incorporate technology as appropriate (e.g., global positioning systems, geographic information systems).
- Build infrastructure. Be patient with this process and avoid debt. This may take months or years to accomplish.
- Communication is always important. Remember a cooperative is member-run and member-owned. As such, members must have information in order to make informed choices and decisions (votes).
- Be patient. Forestry and wood product cooperatives take time to develop.
- Conduct membership education. This is particularly important for new members.

WORD OF CAUTION

The intent of this publication is to inform and educate interested parties on cooperatives. It is not meant to necessarily or exclusively encourage cooperative formation. Undoubtedly, cooperative formation would not be appropriate in all circumstances.

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