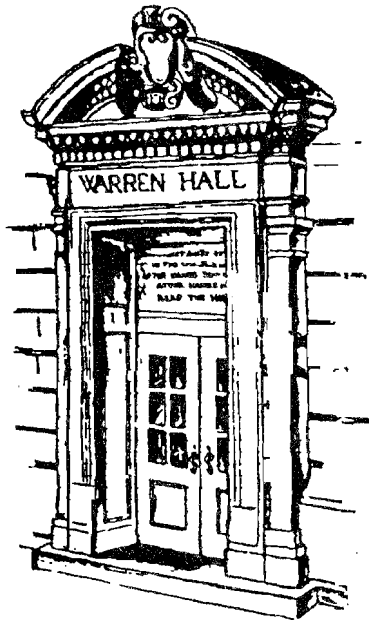


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## Staff Paper

Department of Agricultural, Resource, and Managerial Economics  
Cornell University, Ithaca, New York 14853-7801 USA

# **CONSIDERATIONS FOR GROUP ACTION IN MARKETING SPECIALTY CROPS PRODUCED IN THE NEW YORK CITY WATERSHED**

**BRIAN M. HENEHAN AND RANDY I. BRANDOFF**

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**CONSIDERATIONS FOR GROUP ACTION IN  
MARKETING SPECIALTY CROPS  
PRODUCED IN THE NEW YORK CITY WATERSHED**

A Report to the Watershed Agricultural Council  
and the Board of Directors of the  
Catskill Family Farms Marketing Association

October, 1998

By

**Brian M. Henehan and Randy I. Brandoff**

Cooperative Enterprise Program  
Department of Agricultural, Resource and Managerial Economics  
College of Agriculture and Life Sciences, Cornell University  
Ithaca, New York

## **ACKNOWLEDGMENTS**

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The report is a product of a project subcontracted by WAC through funding from the USDA, Rural Business-Cooperative Services program for developing new value-added marketing cooperatives. The Cooperative Enterprise Program was contracted by WAC to assist in advising producers in the Watershed area as well as evaluating the results of the 1997-98 pilot project for marketing specialty products produced in the area.

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## **ABOUT THE AUTHORS**

Brian Henehan is a Senior Extension Associate in the Department of Agricultural, Resource and Managerial Economics at Cornell University. He serves as program leader for the Cornell Cooperative Enterprise Program which is a research, education and outreach effort aimed at better understanding cooperative business performance. Randy Brandoff is a 1997 graduate of Cornell University majoring in business management. He is currently working as a business analyst for Deloitte & Touche, LLP.

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## I. INTRODUCTION

This report summarizes work performed for the Watershed Agricultural Council, (WAC) funded under the USDA, RBS New Value-Added Marketing Cooperative Development grants program.

Work performed by staff of the Cornell Cooperative Enterprise Program will be reviewed. The report lays some of the groundwork needed to evaluate the economic feasibility of forming a new agricultural cooperative in the New York City, (NYC) watershed area to market fresh specialty fruits and vegetables. The report is **not designed** to be an extensive feasibility analysis or business plan but to assist WAC staff and producers in identifying key issues associated with creating a new marketing entity and point out critical questions which will need to be addressed to achieve success. This report will hopefully provide insight to WAC staff, board members, and the producers involved as they decide what the best approach is for developing an effective marketing initiative for their farm products.

### Background

The NYC watershed comprises an area of 1,580 square miles which contains one of the world's largest surface storage and water supply systems. The reservoir system delivers 1.3 billion gallons of drinking water to NYC daily. This six county area also is home to approximately 400 farms cultivating 185,000 acres of farmland generating farm cash receipts of nearly \$40,000,000.

Since 1990, a partnership between the New York City Watershed Authority and the Watershed Agricultural Council has resulted in significant efforts to minimize the environmental impact of watershed farms. The project has created planning and implementation teams involving USDA Natural Resources Conservation Service staff, Soil and Water Conservation District technicians as well as Cornell Cooperative Extension educators to work with area producers on developing and adopting best management practices aimed at protecting reservoir water quality. Cornell University faculty from various colleges and departments have also been involved in extensive research initiatives designed to increase the understanding of the watershed environment and reduce potential sources of reservoir contamination.

The work of the Watershed Agricultural Program Planning and Implementation teams has resulted in a number of positive outcomes as farmers adopt better management practices and improve farm facilities to minimize environmental impact. The NYC Department of Environmental Protection has determined that agriculture utilizing whole farm planning is an excellent land use strategy to preserve water quality. A viable agriculture maintains low-density land use, resulting in lower environmental impacts than alternative land uses involving higher density development.

### Watershed Agricultural Council Economic Development Program

The Watershed Agricultural Council, WAC, has initiated efforts aimed at stimulating economic development of farm enterprises in the watershed area. The WAC Watershed Agricultural and Forestry Economic Development Program was expanded in 1997. A conference on Farm Marketing which was sponsored in the winter of 1997 generated increased interest in adding value to farm products produced in the watershed and exploring group action in marketing by individual producers. A manager for the WAC Economic Development Program was hired.

And a pilot project was initiated for the 1997 growing season to produce high value fruits and vegetables as well as explore opportunities for marketing specialty meats and dairy products.

WAC was successful in receiving funding for a proposal to USDA-RBS under a new program providing funds for developing new value-added marketing cooperatives. A number of resources were identified in the proposal to accomplish work outlined for the project. One of the entities recruited to assist in the project was the Cornell Cooperative Enterprise Program, CEP. CEP staff were invited to assist WAC and producers in selecting organizational structures which best met the marketing needs of producers as well as provide advice for determining the economic feasibility of various producer group marketing initiatives. The next section of the report describes the scope of work for CEP's part of the project.

## **II. PROJECT WORK PLAN**

### Personnel

Personnel involved in the project included Brian Henehan, CEP program leader, who directed the project. Henehan is senior extension associate in the Department of Agricultural, Resource and Managerial Economics, ARME, in the College of Agriculture and Life Sciences at Cornell University. A recently graduated senior, Randy Ian Brandoff, was recruited to assist in the project. Randy graduated from Cornell University in December, 1997 as an ARME major with an emphasis on business management and marketing.

### Project Work Plan

The scope of work for the project involved five components:

1. Advising WAC on organizational structures needed to coordinate promotion and marketing activities.
2. Identifying key economic and organizational elements needed to support a successful long term marketing initiative for specialty crops and specialty meats.
3. Assisting in analyzing pilot project economic data on handling and marketing specialty fruits and vegetables.
4. Facilitating a discussion among key stakeholders on selecting the best organizational structure for a specialty crops and meat products marketing business.
5. Assisting in developing a preliminary feasibility analysis to determine the economic viability of the specialty products business and developing an initial outline for a business plan.

The work was conducted over the time-period of September, 1997 through August, 1998. The project involved collecting economic data on the pilot project operations, interviewing WAC staff and growers, analyzing organizational options, reviewing pilot project data and developing this report. A number of meetings were held with WAC staff as well as producers involved in the pilot project. The first activity accomplished was developing a set of recommendations for



WAC and several producer groups on the organizational structures needed to be considered for supporting various promotion and group marketing activities. The next section of the report describes conclusions regarding optimal organizational structures.

### **III. RECOMMENDED ORGANIZATIONAL STRUCTURES**

The initial stage of the project was to assist WAC and producers in determining the best organizational structure to carry out the proposed marketing and promotion activities outlined in the grant proposal. Work on this component of the project began in September, 1997. CEP staff attended a number of meetings with WAC staff, WAC economic development committee members and producers as well as a presentation by a marketing consultant who had worked with a number of counties and agricultural groups in California including the “Sonoma Select” campaign.

Two overall goals were discussed: 1) developing a promotional program revolving around farm products in the Watershed produced utilizing best management practices aimed at minimizing environmental impact and enhancing water quality, and 2) adding value to and marketing meat, dairy products, fruits, vegetables and horticultural products produced in the watershed. The first proposed activity was primarily oriented to promotion and the creation of a label to identify watershed produced products. The second proposed activity was adding value to, and marketing, a diverse set of agricultural products.

A range of organizational options were presented and discussed with WAC staff and producer groups. It was recommended to the group of decision makers involved, that the optimal organizational form follows from what specific function will be carried out. The two overall functions: generic promotion of watershed products which might include agricultural or forestry commodities, and marketing a wide range of specific products point towards two different type of organizations.

The promotional activities were intended to be offered to a wide range of agricultural and forestry products being produced in the Watershed. Five critical questions were asked to help define the organizational characteristics which would meet the needs of stakeholders:

1. What was the mission of the proposed organization?
2. What functions would it perform?
3. How would the organization be managed?
4. How would revenues be generated to support the organization’s activities?
5. How would the organization be capitalized?

The answers to the questions of mission, functions, management, revenues, and financing pointed towards what type of organization would make the most sense. The following descriptions summarize the recommendations made to WAC and the producer groups.

### Watershed Product Promotion Organization

The following table summarizes the characteristics of a proposed Watershed Product Promotion Organization. The mission would be to enhance sales of watershed produced agricultural products through the creation and development of a promotional campaign utilizing a logo and other marketing strategies. Increase awareness of environmental practices utilized in the production of watershed products.

**Table 1. Proposed Watershed Product Promotion Organization**

<b>Structure</b>	<b>Functions</b>	<b>Staff</b>	<b>Revenue Sources</b>	<b>Start-up/ Equity Capital</b>
Non-profit tax exempt membership association	<ul style="list-style-type: none"> <li>• Own and protect logo/trademarks</li> <li>• Set policy determining use of logo</li> <li>• Develop promotional and marketing strategies for products utilizing the logo</li> <li>• Determine fee structure for use of logo.</li> </ul>	<p>Executive director</p> <p>Support staff (as needed)</p> <p>Contracted services (if desired)</p>	<p>Member dues and fees</p> <p>Grants</p> <p>Contributions</p> <p>Events</p> <p>Licensing arrangements</p>	<p>WAC</p> <p>Members</p>

### Specialty Crops Marketing Business

The mission would be to enhance the economic well being of watershed specialty crops producers utilizing environmentally sound practices by successfully marketing their products.

The following table summarizes organizational options for a Specialty Crops Marketing Business.

**Table 2. Specialty Crops Marketing Business Alternatives**

<b>Structure</b>	<b>Functions</b>	<b>Staff</b>	<b>Revenue Sources</b>	<b>Start-up/ Equity Capital</b>
Sole proprietor, Partnership, Cooperative, General business corporation  New business or existing firm  Affiliation with promotion organization	Marketing, sales, limit liability, fiscal control, crop assembly, processing storage, distribution, managing accounts  (must determine most efficient role and function)	Manager  Support staff (as needed)	Sales  Member dues  Grants  Services	Sole owners Partners Stock corp.  Existing business  Cooperative members  Other investors

### Specialty Meats Marketing Business

The following table summarizes the characteristics of the organizational options for a Specialty Meats Business. The mission would be to enhance the economic well-being of watershed specialty meats producers utilizing environmentally sound practices, by successfully marketing their products.

**Table 3. Specialty Meats Marketing Business Alternatives**

<b>Structure</b>	<b>Functions</b>	<b>Staff</b>	<b>Revenue Sources</b>	<b>Start-up/ Equity Capital</b>
Sole proprietor, Partnership, Cooperative, General business corporation	Marketing, sales, limit liability, fiscal control, crop assembly, processing storage, distribution, managing accounts	Manager  Support staff (as needed)	Sales  Member dues  Grants  Services	Sole owner  Partners  Stock corp.  Existing business  Members  Other investors
New business or existing firm	(must determine most efficient role and function)			
Affiliation with promotion organization				

### Dairy Producers Group

The mission for the group is to explore ways to enhance the economic well being of watershed dairy producers who utilize environmentally sound practices. The following table summarizes a proposed organizational structure for the Dairy Producers.

**Table 4. Proposed Dairy Producers Group Organization**

<b>Structure</b>	<b>Functions</b>	<b>Staff</b>	<b>Revenue Sources</b>	<b>Start-up/ Equity Capital</b>
Informal committee, "The Posse"	Identify potential specialty dairy products and marketing strategies Explore strategic alliances Select best strategy to pursue.	WAC support	Grants	Little or none needed at this point

### Summary

A set of recommendations were made to WAC staff and producer groups suggesting that overall promotional activities revolving around the creation of a product symbol that identifies those products produced under the specified standards in the watershed area, are best suited to a not-for-profit organizational structure. That not-for-profit could be newly created or perhaps organized under the auspices of WAC. Revenues would be raised through grants, membership dues and service fees. Special events could also offer opportunities for fund-raising.

The actual sales and marketing of producer products are best conducted under a profit oriented business type organization. Given the range and complexity of proposed products to be marketed including: large livestock, small animals, small fruits, specialty crops, horticultural products and milk or dairy products, it would be difficult if not impossible to process and market all these types of products under one business organization. And so, it is recommended that separate businesses be formed or identified to handle and market specific products such as meats, produce, and dairy products.

#### **IV. OVERVIEW OF THE PILOT PROJECT**

This section of the report describes the activities engaged in under the Pilot Project. The Pilot Project included coordinating crop production, post harvest handling, product assembly, marketing, promotion, and distribution. Specialty meats were also marketed through the Pilot Project initiative.

##### Background

A pilot project to grow and market specialty fruits and vegetables was initiated by WAC for the 1997 production season. Crops produced were then marketed through the fall of 1997. Crops were also stored and marketed during the first six months of 1998.

##### Production

A total of 8 producers participated in the 1997 pilot project. A small volume of livestock products were produced including: rabbits, pastured veal, milk fed veal and chicken. The majority of products produced were: specialty potatoes, edible beans, strawberries, cauliflower, herbs and miscellaneous crop. A total of 12 acres were planted for all the variety of crops. All of the producers were located in Delaware County. Crops were harvested by individual producers and hired labor.

##### Post Harvest Handling

Farm products were primarily washed and graded on the farm. Specialty potatoes were stored both on the farm as well as at the WAC storage facility located in Hamden, NY. Washing and grading equipment was purchase by some growers. WAC assisted in procuring the use of washing and grading equipment as well.

##### Product Assembly

The growers were responsible for having products available for shipping off their farms or delivering products to the WAC facility. Products were assembled for delivery by pick-ups from individual farms as well as shipping from the WAC facility.

##### Marketing & Promotion

All marketing and promotion activities were conducted by WAC staff during the Pilot Project. Contacts were made with restaurants as well as specialty food wholesalers and retailers primarily in the New York City metropolitan area.

##### Sales

Sales and accounts management were handled by WAC staff. Producer accounts and customers accounts were maintained through WAC's bookkeeping system.

##### Distribution

Product delivery and distribution was accomplished through WAC staff and vehicles. Additional trucking and delivery into NYC was contracted with a local independent trucker.

## **V. PILOT PROJECT REVIEW**

This section of the report reviews the performance of producers and WAC in accomplishing the goals set out for the Pilot Project as well as attempts to identify some of strategic challenges moving forward from a Pilot Project phase into expanding production and marketing towards achieving an economically viable operation. We will identify the cost categories associated with the Pilot Project operations and project Break-even volumes needed to support marketing activities.

### Organizational Structure

The Pilot Project was coordinated under the auspices of WAC. WAC staff managed the overall project. WAC staff provided coordination of production, assembly and marketing activities. WAC staff provided secretarial and bookkeeping support to the group initiative. No formal agreements were entered into between growers and WAC or with customers.

### Crop Production

This section of the reports attempts to identify and analyze some of the costs associated with the pilot project. Individual growers were encouraged to collect data on production and post harvest handling costs. A format for categorizing production data was suggested by CEP staff (see appendix A., Example Crop Budget) which was developed by Farm Management faculty in the Department of Agricultural, Resource and Managerial Economics. Although an in-depth analysis of the cost of production for each farm product produced is essential to determining the profitability of individual farm enterprises, such a study was beyond the scope and resources of this project. We would strongly urge producers as they make future plans following the pilot project, to document and clearly understand their costs of production for any products to be marketed. A potential benefit of having a group of producers involved in the pilot project is the ability to share data and establish benchmarks for assessing individual farm performance.

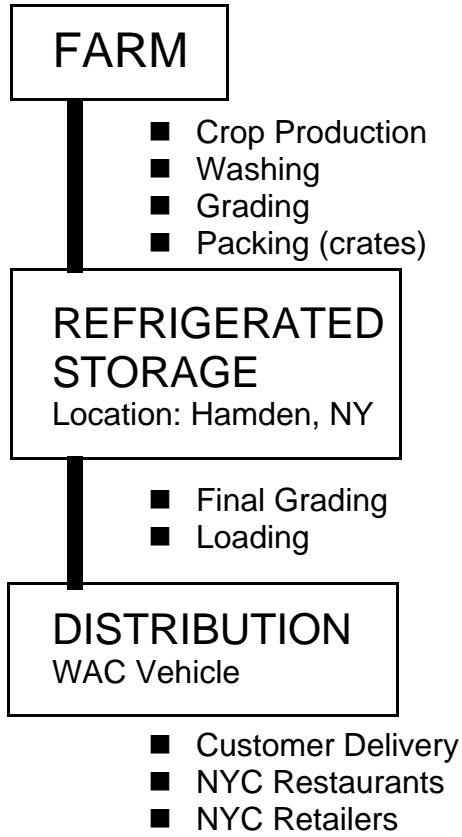
### Post Harvest Handling

It should be noted that a small percentage of the potato crop planted were not able to be harvested due to weather and other variables (approximately one-half acre). An additional percentage of potatoes (approximately 600 pounds) was lost in storage due to freezing. Future crop estimates should include projected shrinkage at both the farm and storage facility levels to arrive at the most accurate projections for total raw product volume.

Product Assembly

Figure 1. presents a diagram of the flow of product from the farm to customers.

**Figure 1. Pilot Project Product Flow**





Sales

The following table summarizes the total sales of products marketed through the Pilot Project as of the end of April, 1998. An inventory of specialty potatoes remained to be marketed. That inventory was valued at \$28,217.

**Table 5. SALES AND INVENTORY FOR THE 1997-98 MARKETING SEASON**

<i>Crops</i>	
Potatoes	59,084.00
Beans	3,404.00
Strawberries	1,454.40
Herbs & Misc.	935.00
Cauliflower & Veg	1,424.00
<i>meats:</i>	
Veal- milk fed	3,424.00
Veal- pastured	1,042.00
Rabbit	1,937.00
Chicken, Lamb & Misc.	<u>217.50</u>
<b>TOTAL SALES</b>	72,921.90
<b>PRODUCT INVENTORY</b>	28,217.20
<b>INVENTORY &amp; SALES</b>	<b>\$101,139.10</b>

A total of \$101,139 of products were sold or in inventory. Sales by type of customer broke down as follows: restaurants purchased 83%, retailers purchased 16% with 1 % of sales sold direct to consumers.

Marketing Expenses

An operating budget was constructed to identify the marketing costs associated with the Pilot Project. Table 6 summarizes the cost categories identified and presents the actual fixed and variable costs for the Pilot Project.

**Table 6. PILOT PROJECT MARKETING EXPENSES, 1997-98**

FIXED COSTS:	
Marketing Expenses:	\$ 11,896
Manager (part-time)	\$ 3,569
Manager Fringe (30%)	\$ 2,520
Bookkeeper	\$ 1,900
Rent/Utilities	\$ 705
Auto Insurance	\$ 20,590
TOTAL Fixed Costs:	
VARIABLE COSTS:	
Marketing Expenses:	
Salary & Wages:	
Technician	\$ 1,622
Technician Fringe (30%)	\$ 487
Delivery/Handling	
Truck Driver (\$250/trip*35trips)	\$ 8,750
Vehicle Operator & Maintenance	
Mileage (100mi./trip*35trips*\$.36/mi.)	\$ 1,260
Travel (Manager)	\$ 750
Telephone	\$ 881
Office Supplies	\$ 868
Meeting Expense	\$ 474
Advertising & Printing	\$ 84
Product Insurance	\$ 1,000
Post Harvest Handling	
Packaging (bought@\$1.82*1700)	\$ 3,094
Grading	\$ 1,000
Storage	
Utilities (7mos. @\$80)	\$ 560
“ Shrinkage (5% of \$20,000)”	\$ 1,000
“ Depreciation (3 yrs, \$7768 cost)”	\$ 2,589
TOTAL Variable Costs:	\$ 25,682
TOTAL Fixed Costs:	<u>\$ 20,590</u>
TOTAL COSTS:	<u>\$ 46,271</u>

The data used to estimate expenses were collected from WAC staff and the Pilot Project coordinator. Several cost categories were probably underestimated including: managers time, support staff time and communications expenses. It was difficult to separate the time management and staff spent on the Pilot Project from time associated with other responsibilities for their work with WAC.

A total of \$46,271 was expended to market the crops produced in the Pilot Project. Expenses were broken down into fixed costs of \$20,590 (44% of total costs) and variable costs of \$25, 682 (56% of total costs). A break-even analysis will be discussed later in this report.

### Marketing

In 1997-98, WAC was successful at finding customers and realizing a relatively high price for its specialty products. Thus, it is clear that a market exists. Determining the size of the market (markets), the elasticity of demand, and the growth potential, are difficult problems that will require additional market research. It appears that interest is increasing as the market gains awareness of the quality of it's specialty products. Increased quality awareness coupled with an increased awareness of the 'agriculture protecting water' message, could result in even greater gains in the future. The primary markets identified for the 1997-98 marketing season were:

Restaurants- The high-end restaurant market was a top priority and comprised 83% of sales. In NYC, approximately 15 high profile restaurants purchased products and demonstrated loyalty to the product line.

Retail Stores- Upscale retail outlets in New York City, namely specialty food stores and supermarkets, comprised a small share of sales. All stores received direct delivery to their doors or warehouse.

### Future Sales

Although only restaurants and retail outlets were utilized in 1997-98, WAC has targeted additional market channels for 1998-99. Each of the six market segments needs to be explored, independent of the others, to see how much a growth potential exists. However, as production and sales volumes increase in 1998-99, it is important to monitor the effect of the increased volume on price (increased volume shipped through lower priced channels, tends to result in lower average prices). The six markets targeted for 1998-99 are:

Restaurants- Plans are to formalize a relationship with 20 restaurants, including a few upstate, with the ability to better plan production and direct distribution.

Retail Stores- While specialty stores will be offered a range of products, supermarket sales will include only the potato line. D'Agostino's supermarkets is a top priority because of the potential for dovetailing with their own in-house marketing programs and their specific interest in supporting local 'green' products.

Farmer's Markets- have yet to be utilized to their potential, though much is planned for the upcoming year. In 1998-99, it is anticipated that direct retail sales will take place through the Green Market one market in NYC and perhaps one in the Watershed region, such as Margaretville. All locations could provide valuable customer feedback to producers and opportunities to build the Catskill Family Farms (CFF) brand.

Electronic Outlets- were not specifically identified for 1997-98, but should be considered for 1998-99. Marketing could be undertaken through a WAC sponsored website or other appropriate site. Products could actually be sold and orders fulfilled through this type of outlet.

Purveyors- were not used significantly in 1997-98. They provide a smaller margin to growers than direct sales to restaurants.

Regional Distributors- were not used in 1997-98. They provide the smallest margin to growers, but they may be an option as needed.

What is the potential for product sales over time? While it appears that a certain level of growth can and will be achieved in the 1998-99 marketing season, it is difficult to forecast the rate of growth for the future. First, at some level of sales, specialty products cease falling into the 'specialty' category. Second, as this program becomes more successful, it is increasingly likely that competition will mount and cut into sales and margin. The organization will have to be strong and focused to confront increased competition. Third, problems caused by rapid expansion (or even over-expansion) can lead to negative net returns. At this point, the market potential seems reasonably strong.

Continued emphasis on specialty crops that are high quality and that are grown through environmentally friendly methods could effectively position products in the market. With increased sales volume, there will be increased pressure to maintain quality products. Sales growth will require additional capacity for grading, storage, packing and distribution functions. Until these functions are expanded and coordinated, their may also be a problem in delivering the crops to the markets while they are in peak condition. It is important that quality is never sacrificed at any time, for any product, for it will reflect poorly on all the other products wearing the same label.

The fixed, variable, and unknown costs of increased production will become increasingly clear over time. As sales volume increases, more services might be required and the sales force will need to be augmented. The costs of increased services to both customers and growers are yet to be determined.

## **VI. RECOMMENDATIONS FOR A NEW COOPERATIVE**

Early on in the process of discussing the potential feasibility of expanding marketing efforts on behalf of the producers involved, a set of questions was developed to test the preliminary feasibility of group marketing. The following set of questions remains a useful touchstone in reviewing feasibility issues as the group moves beyond the pilot project stage. The questions are broken down into six categories: demand, supply, assembly/processing, transportation, marketing, and organizational issues. The group of producers involved should be able to answer these questions to their own satisfaction before expanding operations. This is not meant to be an exhaustive list of questions but a useful starting point for evaluating preliminary economic feasibility of a group marketing initiative.

### **Preliminary Feasibility Questions**

#### **Demand**

1. What is the demand for products? - Is it increasing, what is potential over time? What are the quality standards and services required to serve customers?
2. What will customers value most from the group? quality, service, image (environmental, local?)

#### **Supply**

3. Are the area soils, climate, and farm resources adequate to support the required volume of production?
4. Can an adequate supply of high quality product be produced profitably at the volume needed?
5. What are the producer's costs of production for each product produced?
6. Will producers consistently deliver the quality of products needed?
7. How will technical support be delivered to producers to adopt new crop production systems?
8. What TQM systems will be implemented at the farm level to insure quality?

#### **Assembly and Processing**

9. How will crops be assembled for processing/marketing? All processing done on the farm?
10. If a facility is needed, distances from producers? From markets? Clustering of producers around facility?

11 .Storage/Processing capacity needed:- cu ft., inventory, warehouse shipping capacity, equip. (palletizing, loading, cooling)

12. Can raw products be washed, graded, packaged for market profitably? What equipment, labor, and warehousing facilities will needed?

### **Transportation**

13. Can products be assembled and distributed profitably? What transportation systems will be needed for off-farm assembly, and transportation to market? What type of loading and unit shipping equipment will be required?

14. How will crops be transported to facility? To customers?

15. Who pays for trucking? Insuring quality in transport from the farm or to customers?

16. Is it less costly to own, lease vehicles or contract for services? ( costs: vehicle, labor, mileage, parking issue in NYC)

17. Should an alliance be formed with wholesalers, distributors, or others?

### **Marketing**

18. What resources will be needed to serve all your customers effectively? (Such as managing accounts, customer relations, promotion, and risk sharing).

19. What procedures are needed to insure total quality management from farm through the processing, storage and marketing systems?

20. What price range can the producers tolerate (ie. Margin over cost of production)?

### **Organizational**

21. Is there a viable organizational structure to support the business? (Such as: leadership, investment capital, fiscal control, sustainability).

22. Are there adequate management resources available to run the business? (Including: grower relations, production coordination, inventory and transportation, sales, customer relations, financial, accounting, sales, supervising staff).

23. Can the organization be adequately capitalized? (Member equity, debt, etc.)

24. Can the organization generate adequate cash flow to sustain itself?

Some of these questions have been answered but many of them present a “moving target” and will need to be reviewed as the business and organization grows.

### New Cooperative Formed

Since the inception of the Pilot Project, a new marketing cooperative has been formed to market products on behalf of the producers involved. The new organization which is named Catskill Family Farms Assn.. (CFF) is incorporated under the Cooperative Corporation statutes of New York State. This section of the report presents specific recommendations to the directors, members and manager of CFF. These recommendations are based observations from the Pilot Project activities as well as meetings and discussions with producers and WAC staff.

### Developing a Business Plan

One of the preliminary recommendations to the group was the development of a detailed business plan. A draft outline of a business plan was provided to WAC staff in December, 1997 and is noted on the following page.

It is beyond the scope of this project and the role of the authors to develop a complete business plan for the proposed cooperative, but this outline will hopefully provide a useful starting point for developing a more detailed plan.

### Break-even Analysis

Any new start-up marketing business seeks to reach a profitable level of sales as soon as it can. A new agricultural marketing cooperative can have some unique challenges in achieving break-even sales. There are a number of variables which make projections more challenging such as: the number of potential members, estimating member production volume, estimating needed processing or storage capacity, and estimating the volume of finished products for available for sale.

A break-even analysis was developed using the expense data from the Pilot Project to determine the level of sales needed to achieve a break-even point. The following set of assumptions were used in this analysis.

1. Growers were responsible for the following post harvesting activities and associated expenses:
  - \* Washing crops
  - \* Initial grading and packing
  - \* Packaging
  - \* On farm storage
  - \* Delivery to WAC central storage

## BUSINESS PLAN OUTLINE

### Plan Section

### Business Data

- |   |   |
|---|---|
| <p>1. Description of Business:</p> <ul style="list-style-type: none"> <li>-legal identity</li> <li>-organizational structure</li> <li>-business activities, products, services</li> <li>-seasonal cycles</li> <li>-pilot project results</li> </ul>   | <ul style="list-style-type: none"> <li>• Proposed charter/bylaws</li> <li>• Summary of products</li> <li>• Seasonal cash flow description</li> <li>• Pilot project results</li> </ul>   |
| <p>2. Products/Services</p> <ul style="list-style-type: none"> <li>-what products will be sold</li> <li>-what services offered</li> <li>-what makes products unique and attractive</li> <li>-what makes services unique</li> <li>-quality assurance from producers</li> </ul>   | <ul style="list-style-type: none"> <li>• Detailed list of products &amp; services</li> <li>• Marketing successes</li> <li>• Producer quality</li> <li>• Producer commitment</li> <li>• Quality incentives</li> </ul>  |
| <p>3. The Market</p> <ul style="list-style-type: none"> <li>-Who buys, define target customers</li> <li>-Potential for growth</li> <li>-Market share</li> <li>-Market segments</li> <li>-How will you hold or grow share?</li> <li>-Pricing strategies</li> <li>-Rank priority markets</li> <li>-Advertising/promotion</li> <li>-Leveraging local identity</li> </ul> | <ul style="list-style-type: none"> <li>• Customer testimonials</li> <li>• Pilot project sales</li> <li>• Industry data</li> <li>• Priority segments</li> <li>• Growth trends</li> <li>• Pricing experiences</li> <li>• Add/drop products</li> <li>• Successful promotion</li> <li>• Logo/image development</li> </ul> |
| <p>4. Competition</p> <ul style="list-style-type: none"> <li>-Who are your nearest direct competitors?</li> <li>-Who else</li> <li>-Business similarities/differences</li> <li>-Lessons learned</li> </ul>  | <ul style="list-style-type: none"> <li>• Current competitors list</li> <li>• Potential competitors</li> <li>• Strategic advantages</li> <li>• Strategic weaknesses</li> <li>• Pilot project lessons learned</li> </ul>  |
| <p>5. Location</p> <ul style="list-style-type: none"> <li>-sales force</li> <li>-processing</li> <li>-farms</li> <li>-space needed:               <ul style="list-style-type: none"> <li>office, processing, distribution, storage</li> </ul> </li> <li>-space available</li> <li>-access to highway, growers, markets</li> </ul>                                     | <ul style="list-style-type: none"> <li>• Pilot project experiences</li> <li>• Transport off farm location</li> <li>• Pilot project experience</li> <li>• On farm processing</li> <li>• Off farm processing</li> <li>• Centralized storage needs</li> </ul>  |



## 6. Management/Personnel

- Who is on the management team?
- Who does management report to?  
(board)
- Grower leadership (board of directors)
- outside directors (board)
- consultants
- skills needed (position description)
- additional human resources needed:  
grower relations, sales, quality assurance

- Pilot project time spent by function:

- sales, management
- grower relations
- quality control
- membership contracts

## 7. Finance

- grower equity/investment
- total capital needed
- buy/lease? Facilities
- expected return on investment
- start-up costs
- debt financing needed

- Projected: (3 yr.):

- income & expense
- balance sheet
- cash flow
- source and use of funds
- return on equity

## 8. Summary

- why should growers participate
- expected benefits
- why initiative will result in a viable business

- Break-even point sensitivity analysis:

- by sales volume
- by commission charge

## 9. Appendix:

- organizational structure, bylaws, certificate of incorporation
  - membership agreements
  - marketing contracts
  - quality standards
-

2. WAC was responsible for:

- \* Central storage
- \* Final grading and packing
- \* Shipping and delivery
- \* Sales staff
- \* Bookkeeping: (grant accounts, grower accounts, customer accounts)
- \* All marketing costs
- \* Distribution and delivery

3. Costs not included due to limited data:

- \* Returned or rejected products
- \* Product liability insurance
- \* Problem customer accounts

Table 7 summarizes the data used for the break-even analysis. An eighty percent gross margin was assumed for this analysis. This percentage correspond to the cost of goods sold or payments to growers. The remaining margin (20%) is available to pay for the costs incurred in handling and marketing products.

**Table 7. Projected Breakeven Analysis for Pilot Project**

FIXED COSTS:	1997-98		
Marketing Expenses:			
Manager	\$ 11,896		
Manager Fringe (30%)	\$ 3,569		
Bookkeeper	\$ 2,520		
Rent/Utilities	\$ 1,900		
Auto Insurance	\$ 705		
Total Fixed Costs:	\$ 20,590		
VARIABLE COSTS:			
Marketing Expenses:			
Salary & Wages:			
Technician	\$ 1,622		
Technician Fringe (30%)	\$ 487		
Delivery/ Handling			
Truck Driver (\$250/trip*35trips)	\$ 8,750		
Vehicle Oper & Maintenance	\$ 1,263		
Mileage (100miles/trip*35trips*\$.36/mile)	\$ 1,260		
Travel (Manager)	\$ 750		
Telephone	\$ 881		
Office Supplies	\$ 868		
Meeting Expense	\$ 474		
Advertising & Printing	\$ 84		
Product Insurance	\$ 1,000		
Post Harvest Handling			
Packaging (bought @ \$1.82*1700)	\$ 3,094		
Grading	\$ 1,000		
Storage			
Utilities (7mos. @ \$80)	\$ 560		
Shrinkage (5% of \$20,000)"	\$ 1,000		
Depreciation (3 yrs, \$7768 cost)"	\$ 2,589		
Total Variable Costs:	\$ 25,682		
Total Fixed Costs:	<u>\$ 20,590</u>		
Total Costs:	<u>\$ 46,271</u>		
TOTAL SALES NEEDED TO BREAK EVEN	\$ 231,357	\$ 308,477	\$ 462,715
GROSS MARGIN (%)	80%	95%	90%
Payments to growers for products	\$ 185,086	\$ 262,205	\$ 416,443
Total Costs	\$ 46,271	\$ 46,271	\$ 46,271

Several points are worth noting from this break-even analysis. First all of the break-even sales levels are significantly higher than the pilot project sales of approximately \$100,000. The estimated marketing costs also err on the low side. A twenty percent operating margin is assumed which results differs significantly from the ten percent fees charged growers for marketing their products through the pilot project. And so, in order to break-even, **future sales will need to grow dramatically and prices paid to growers will most likely decrease for the short run.**

The levels of sales needed to break-even varies significantly across gross margin percentages considered. And so, it is critical to determine what level of grower payments (gross margin) is most realistic. Or put differently what gross margin will the cooperative need to maintain to be profitable. The tendency in new marketing cooperatives is to “over pay” members for their products beyond a level that allows the cooperative to be profitable. (See Appendix D Achieving Success).

A more likely scenario is that marketing costs will end up in the range of \$85,000 to \$150,000 which means at an 85% gross margin, sales would have to reach \$1,000,000. A more detailed break-even analysis should be conducted when the marketing costs of the new cooperative are better understood. Several questions remain about the role of the cooperative in handling, grading, storing and delivering products. Once the expenses associated with the planned activities are determined along with potential demand for products, a more accurate break-even analysis can be performed.

### Strategic Plan

The CFF board of directors will need to develop a strategic plan. A strategic plan differs from a business plan in the following ways. The strategic planning process involves the following: an analysis of competitive strengths and weaknesses, a comparison of the firm’s position in relation to the competition, development of strategies to leverage strengths and minimize weaknesses, and establishment of performance measures to insure desired goals are reached. Although management typically does much of the data gathering and analysis in developing a strategic plan, the board of directors needs to participate and understand what the critical performance areas are, as well as how to measure performance.

### Strategic Planning Issues:

The initial activities of the pilot project have helped to identify some of the critical issues which will need to be addressed in a strategic plan. Nine critical performance areas were identified as follows: production, post harvest handling, marketing, product pricing, distribution, cooperative organization, finance, management, and managing growth.

Key challenges for each performance area are presented in this section. Recommended strategies are proposed to help address the identified challenges. This list of challenges and strategies is not exhaustive. The strategic planning process will uncover more challenges, prioritize the most critical and explore the most effective strategies.

PRODUCTION**Challenge- Insure growth of quality crop production to meet market demand**Recommended Strategies-

- ◆ Insure adequate technical and educational support for new grower crop production.
- ◆ Develop economic benchmarks to assist grower analysis of production costs.
- ◆ Members should document production practices to meet cooperative's specifications.
- ◆ Mechanize production and harvesting to cut labor costs.

**Challenge- Insure highest quality products possible**Recommended Strategies:

- ◆ Implementation of a total quality management system.
- ◆ Maintain strict quality standards, reject all sub-par products.
- ◆ Develop quality price incentives for producers.

**Challenge- Insure that members honor their quality and production commitment to the cooperative**Recommended Strategies:

- ◆ Create written, legally binding marketing agreements with penalty clause.
  - ◆ Agreements must spell out quality standards, volume and delivery requirements
  - ◆ Spell out how supply shortages will be handled to the cooperative's benefit
- (for more information see "Achieving Success", Appendix D).

POST HARVEST HANDLING**Challenge- Develop Adequate, Efficient packing, Storage and Shipping Capacity**Recommended Strategies:

- ◆ Determine needed capacity based on projected demand, and then projected supply.
- ◆ Coordinate harvesting and packing labor to reduce costs.
- ◆ Determine what functions (grading, packing washing, storage) are best performed on the farm vs. at a central facility.
- ◆ Determine what shipping functions are best performed on the farm vs. at a central facility, (palletizing, loading, highway access).
- ◆ Create total quality management system for packing, storage, and shipping. Marketing agreement should spell out all grading, handling, and packing procedures.
- ◆ Develop efficient inventory control and management system

MARKETING AND PROMOTION**Challenge- Maintain Adequate Sales and Marketing Force to Grow Business**

- ◆ Grow volume to support needed management and staff.
- ◆ Develop sales incentives for staff.
- ◆ Expand staff beyond 1997-98 levels to support growth in sales.

### **Challenge- Assess the Levels of Demand and Growth Potentials of Various Market Channels and Segments**

#### Recommended Strategies:

- ◆ Ongoing communication with current customers is essential. Administer market survey to all of last year's customers (see draft in Appendix E.).
- ◆ Explore new channels and understand cost benefits of each channel. (direct, retail, wholesale, etc.)

### **Challenge- Research New Markets and Customers.**

#### Recommended Strategies:

- ◆ Enter new markets in controlled steps (test market)
- ◆ Survey potential new customers/partners
- ◆ Expand contact list to include customers in new markets
- ◆ Explore new alliances to serve desired market channels

### **Challenge- Understand Marketing Costs as Sales Grow and New Market Channels are Utilized.**

#### Recommended Strategies:

- ◆ Assess 1998-99 costs of servicing various customers.
- ◆ Collect detailed data on marketing costs.
- ◆ Analyze marketing expenses for each market channel.

### **Challenge- Develop an Effective Pricing Strategy**

#### Recommended Strategies:

- ◆ Understand member cost of production.
- ◆ Estimate price levels members can tolerate.
- ◆ Understand the price potential for each market segment based on historical prices.
- ◆ Test various pricing strategies during 1998-99 marketing season.
- ◆ Generate good data on prices received.
- ◆ Analyze data to calculate the level of customer demand, the elasticity of demand and the competitive pricing position versus the competition.
- ◆ Members must understand that prices NOT based on cost of production but market conditions. MUST therefore strive to be *low cost producer*.

### **Challenge- Maintain Top Quality Products and Standards**

Recommended Strategy- Maintain top quality by rejecting unsatisfactory product at every step along the supply chain through a total quality management (TQM) approach:.

- ◆ On farm
- ◆ Assembly
- ◆ Grading
- ◆ Packing
- ◆ Storage (temp. controlled)
- ◆ Distribution (refrigerated trucks)
- ◆ Customer rejects

**Challenge- Build Brand Identity and Image of Quality**Recommended Strategies:

- ◆ Develop customer recognition of the Catskill Family Farm name
- ◆ Ensure customers associate CFF with quality.
- ◆ Effectively leverage WAC's "green marketing" program and logo.
- ◆ Develop alliances with outside groups: chefs associations, other trade associations, environmental, and consumer groups.

**Challenge- Develop Effective Promotion and Advertising Program**

- ◆ Build on pilot project experience but expect to increase budget significantly
- ◆ Develop and evaluate marketing and promotion activities
- ◆ Manage product lines (culling poor performing products, promote growth products)
- ◆ Exploring electronic commerce opportunities (Internet transactions, website)

**Challenge- Expand Beyond the Current Niche Market as Volume Increases**Recommended Strategy-

- ◆ Larger volume markets will be needed to support expanded sales.
- ◆ Expect lower prices to remain competitive.
- ◆ Achieve economies of size that allow profitability even in lower priced markets.
- ◆ Explore working relations with distributors, brokers or other potential partners.
- ◆ Expand breadth of product line as feasible.
- ◆ Concentrate limited resources on products and market channels with highest returns.

**Challenge- Acquiring New Customers**Recommended Strategy-

- ◆ Listen to the recommendations for improvement coming from existing customers.
- ◆ Ask current customers for potential new leads.
- ◆ Obtain additional sales resources to make new customer contacts.
- ◆ Explore innovative advertising strategies to attract new customers.
- ◆ Additional promotion through chefs, retailers, and specialty stores.

**Challenge- Improving Efficient Consumer Response.**Recommended Strategy-

- ◆ Develop Efficient Consumer Response (ECR) system using effective communication methods.
- ◆ Maintain timely and accurate listings of product availability.
- ◆ Provide for customers to keep CFF up to date on their needs.
- ◆ One possible solution to this problem is a CFF Web-site.

PRODUCT PRICING**Challenge-Understand New Product Life Cycle. How long will products remain "specialty"?**Recommended Strategies:

Estimate life cycle for current specialty crop and project future prices

- ◆ Realize 1997-98 producer level prices were artificially high due to WAC subsidies.
- ◆ Study competition as other players enter specialty market.

**Challenge- Develop competitive product pricing which generates adequate returns to cooperative and growers**

Strategies:

- ◆ Understand production costs as well as assembly, post harvest handling, and marketing costs to be able to develop competitive product pricing structure.
- ◆ Cooperative must “make money” to finance itself and provide grower benefits over the long term.

PRODUCT DISTRIBUTION

**Challenge- Efficiently Distribute Products to Target Customers and Consumers**

Recommended Strategies:

- ◆ Document delivery costs: (vehicle, labor, mileage, parking in NYC, shrinkage in transit)
- ◆ Analyze own delivery vs. Contracting
- ◆ Analyze formation of alliance with other producers, broker, groups or businesses.
- ◆ Determine where you achieve the highest net returns.

MANAGEMENT

**Challenge- Clearly Identify the Role and Responsibilities of Manager.**

Recommended Strategies:

- ◆ Adopt a manager’s position description (Appendix F.)
- ◆ Create an annual management performance review process by CFF board of directors
- ◆ Coordinate with WAC to insure manager’s responsibilities are fulfilled.
- ◆ Develop a long term compensation package to reward performance and retain the most qualified manager

**Challenge- Maintain Effective Management and Board of Director Relations**

Recommended Strategy-

- ◆ Develop management reporting system to keep board abreast of critical performance areas. (Sales, accounts receivable, budget deviations, etc.)
- ◆ Create financial reporting systems which provide up to date monthly operating statements and cash flow summaries

**Challenge- Build Manager’s Understanding of Cooperative Business Administration and Finance**

- ◆ Create manager development plan and include educational support in budget (see “Achieving Success” Appendix D. for more suggestions)



## COOPERATIVE ORGANIZATION

### **Challenge- Ensure Members Know Their Role and Responsibilities**

#### Recommended Strategies:

- ◆ Develop bylaws, membership and marketing agreements which clearly spell out to role and responsibilities of members.
- ◆ Initiate member communications effort (newsletter, meetings, etc.)
- ◆ Develop annual report and annual meeting

### **Challenge- Build Director's Capacity for Cooperative Decision Making and Understanding of Finance**

- ◆ Create director development plan and include educational support in budget (see "Achieving Success" Appendix D. for more suggestions)
- ◆ Adopt director position description (see Appendix G.)

### **Challenge- Maintain Good Working Relations Between Board and Manager**

#### Recommended Strategy- Create effective communications system between board and manager:

- ◆ Develop annual performance review for manager by board.
- ◆ Board chair typically assume key role as intermediary between board and manager
- ◆ Insure adequate fiscal control is in place including annual audit

## FINANCE

### **Challenge- Determine Capital Needs and Create Effective Member Equity Program to Build Needed Capital Base**

#### Recommended Strategy- Create member equity program which includes:

- ◆ Initial membership stock purchase
- ◆ Tie stock purchases to volume delivered to cooperative
- ◆ Utilize per unit retain system to build member equity over time
- ◆ Use period of WAC support to build equity base before cooperative becomes "unsubsidized"

### **Challenge- Close Monitoring of Financial Performance**

#### Recommended Strategy-

- ◆ Establish annual budget and justify actual monthly expenses vs. Budget
- ◆ Create financial reporting systems which provide up to date monthly operating statements and cash flow summaries

### **Challenge- Moving From Subsidized Support to a Viable Self-Supporting Business**

#### Recommended Strategies:

- ◆ Determine exact level of WAC start-up support over a defined time period
- ◆ Develop up-dated breakeven analysis based on viable sales volume
- ◆ Identify level of actual costs and revenues ( losses) for short term

- ◆ Develop financial plan to shift from operating loss to desired earnings level

## MANAGING GROWTH

### **Challenge- Determining the Desirable Rate of Growth**

#### Recommended Strategies:

- ◆ Rate of growth cannot exceed capital or management capacity.
- ◆ Break-even level of sales must be achieved as quickly as possible.
- ◆ Key question is what will be the major constraint to growth? (demand, production, capital, etc.)

### **Challenge- Determining Which Products to Increase Production For**

#### Recommended Strategies:

- ◆ Growth should be market-driven.
- ◆ Determine which products show the highest demand as well as the greatest profitability.
- ◆ Consistently review the product line to trim loss items and expand high demand items.

### **Challenge- Identifying the Human Resources Needed to Support Growth**

#### Recommended Strategies:

- ◆ People (management, staff) are typically one of the greatest expenses in the budget of a new marketing business. Talented marketing people don't come cheap.
- ◆ Identify what skills will be needed and budget accordingly.
- ◆ The investment in good people can show the highest returns possible to a firm.

### Summary

This report has described the operations of the 1997-98 pilot project for marketing specialty crops produced in the New York City Watershed. The production, post harvest handling and marketing activities conducted under the Pilot Project were reviewed. The Pilot Project achieved some modest successes in marketing specialty products particularly to upscale restaurants and retail outlets in New York City. There will be a number of critical challenges as the group of producers moves out of the project phase into developing a sustainable production and marketing system. This reports offers a set of recommendations to enhance the potential success of the group marketing initiative.

A list of public, private and association resources are listed in the last section of this report which may be of help to the group as they expand individual farm production and move ahead with the marketing cooperative venture. These recommendations and resources are offered to those directly involved with this project but also can provide a guide to those considering similar type marketing initiatives.

### Cooperatives

John Wells

USDA, Rural Business

Cooperative Services  
Washington, DC  
202/720-7558

Brian Henehan  
Cooperative Enterprise Program  
Agricultural, Resource, and Managerial Economics Department - Ithaca  
203 Warren Hall  
607/255-8800

Bob Pestrige  
USDA, Rural Development  
Cooperative Development Specialist  
315/477-6426

Richard Poorbaugh  
Pennsylvania State Directors Institute  
Pennsylvania State University  
814/863-0644

Tom Little, V. Pres. Education  
National Council Farmers Cooperatives  
Washington, DC  
202/626-8700

National Society of Accountants for Cooperatives  
Springfield, Virginia  
703/569-3088

#### State Associations

NYS Vegetable Growers Association  
Ithaca, NY  
Jean Warholic, Exec. Secretary  
607/539-7648  
NYS Agricultural Society  
Kevin Carhart, President  
716/343-5023

NYS Horticultural Society  
George Lamont, President  
716/589-7022

Regional

Northeast Cooperative Council  
Brian Henehan  
Agricultural, Resource, and Managerial Economics Department - Ithaca  
203 Warren Hall  
607/255-8800

New England Vegetable and Berry Growers Association  
508/369-5952

Northeast Chapter, National Society of Accountants for Cooperatives  
Ralph Lawrence, Secretary  
Springfield, Massachusetts  
413/786-7600

National

Produce Marketing Association  
Steve Ahlberg, VP Member Programs  
Newark, Delaware  
302/738-7100

Other Produce Marketing Cooperatives

Deep Root Truck Farmers Cooperative  
Mike Sheppard, Manager  
  
Westminster Station, Vermont  
802/722-9203

Maine Potato Growers, Inc.  
Joseph Lallande, CEO/General  
Manager  
Presque Isle, Maine  
207/764-3131

Coastal Growers Association  
Mary Lee Parsons, CEO/General Manager  
Westport, Massachusetts  
508/636-2009

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## APPENDIX

- A. Model Cooperative Marketing Agreements
- B. Example Crop Production Budget
- C. Model Cash Flow Projection.
- D. Cooperating for Sustainability, sec. 4. "Achieving Success" pp. 65-76
- E. Draft Market Survey
- F. Model Cooperative Manager Position Description
- G. Model Cooperative Director Position Description