



Farmer to Vendor Manual

This publication was produced as a research project on grocery store vendor opportunities and cooperative development for farmers in Santa Rosa County, Florida and the Panhandle region. It was produced by the Haas Center for Business Research and Economic Development at the University of West Florida, commissioned by TEAM Santa Rosa Economic Development Council, Inc. and funded with a grant from the United States Department of Agriculture. It is designed to provide general information and should not be considered as individual business or legal advice. Readers with specific business or legal questions concerning their businesses and the application of state and federal law should contact their own advisors or attorneys to determine how the law applies to them.

Introduction

Whether at the farmer's market, from a roadside stand, on the website, or off the back of the pickup truck, most farmers have some experience in directly marketing their farm products. When done like this, it's a relatively straightforward business that has few formal requirements.

Becoming a supermarket supplier, on the other hand, while having the potential for significant recurring sales volume, also requires more business organization. It requires careful study to determine whether a business customer's product requirements can be met or whether it's financially worth it to a supplier to get involved in it.

If you are presently involved with direct marketing, you may have to change your operation to more closely meet the store's requirements. Grocery stores will often demand packaging, grading, handling or processing procedures that may be unfamiliar. Grocery stores may also require you to maintain more liability insurance than you presently have.

With this type of institutional selling, frequent deliveries of product from the producer to the buyer are the norm, and the product may be stored or transported over some distance. Much effort has gone into developing crop varieties that can withstand machine handling, storage, and transport, but these may not be what you currently produce. If you intend to produce for the grocery store market you may need to adjust your planting and harvesting plans.

Becoming a supermarket vendor is in many ways like starting a new business. It requires information, planning and attention to detail.



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Brief description of the market

The U.S. fruit and vegetable industry accounts for nearly a third of U.S. crop cash receipts and a fifth of U.S. agricultural exports. Fruit and vegetables accounted for 29 percent of 2002-04 U.S. farm crop cash receipts, about 17 percent of consumer food expenditures, and 18 percent of agricultural export value. Although the fruit and vegetable share of crop receipts is relatively large, in 2002 these high-value crops were produced on only 13 million acres, or 3 percent of U.S. harvested cropland.

Many fruit and vegetables require similar handling and share a common marketing system. Wholesale markets, for example, handle most types of fresh fruit and vegetables. Fresh produce is highly perishable and requires constant cooling during storage and transportation. Perishability of fresh produce also dictates special handling to minimize marketing losses. The majority of fruit and vegetables are consumed directly, either as fresh or processed foods.

More than half the volume of all fresh and processed fruit and vegetables reaches consumers via supermarkets and other retail establishments. The next major marketing segment for produce is the foodservice industry, which includes fast food establishments, table-service restaurants, institutional food services, and various Federal programs (e.g., school lunch and military purchases). Some produce (an estimated 1 percent) is marketed directly from the farm to the consumer via farmers' markets, roadside stands, and pick-your-own operations. About 10 percent of U.S. fruit and vegetable supplies enter export markets.

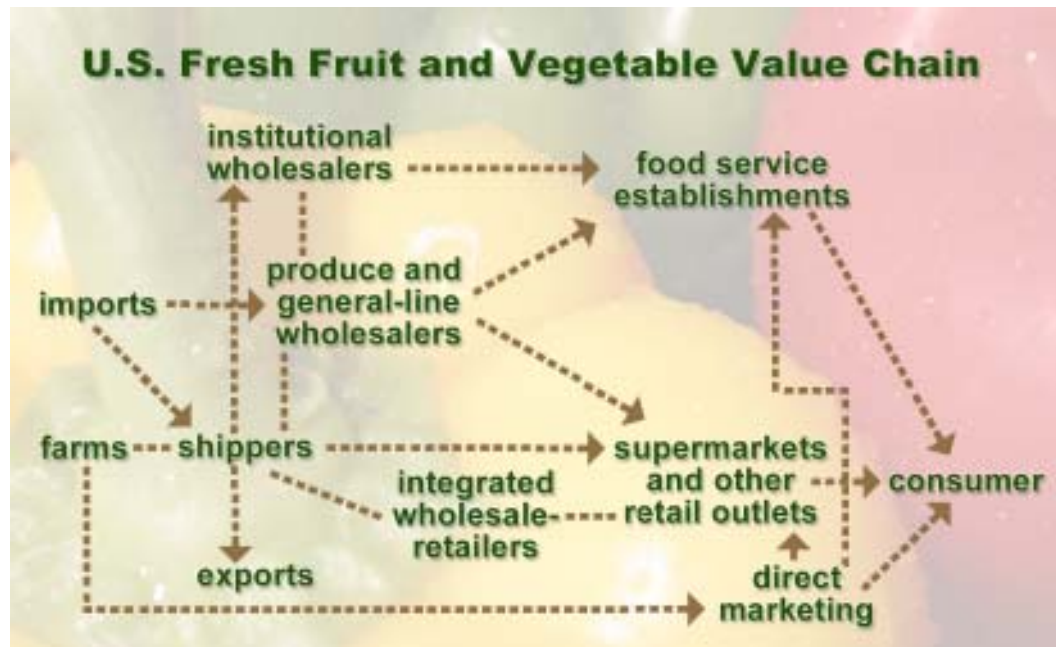
The grocery store industry is a concentrated one. According to the Produce Marketing Association, the top 10 supermarket chains accounted for 68 percent of retail grocery sales in 2005, up from just 53 percent in 1999.

Challenges

A 2000 Iowa study on increasing the use of Iowa-grown products by supermarkets identified key challenges for farmers seeking to become vendors. These included:

- quality and freshness are extremely important and must be maintained;
- product availability and consistency are very important and must be maintained;
- there must be consistency in size; product must be packed in standard industry containers;
- growers must stand behind their product and give credit or accept returns if there are problems;
- prices need to be competitive;
- supermarket chains prefer centralized distribution systems that require extremely high volumes; however, most are not restricted from buying from other suppliers if they see reasons to do so. Farmers must give them a reason to do so.

Source: Practical Farmers of Iowa Grocery and HRI Study, April, 2000.



Company	Stores	2005 Sales (\$Billions)	% Total Sales (2005)	% Total Sales (1999)
Wal-Mart	1929	\$155	24.7%	3.9%
Kroger	3302	57	9.1	11.2
Albertson's	2476	41	6.5	9.1
Safeway	1801	39	6.2	7.4
Costco	412	32	5.1	4.4
Ahold USA	816	28	4.5	5.3
Sam's Club	567	26	4.1	2.1
Publix	874	21	3.3	3.1
Delhaize	1529	17	2.7	2.6
H-E-B	301	11	1.8	1.7

Production requirements

According to the Food Marketing Institute, the typical grocery store sells over \$39,000 of produce items weekly. This represents about 10 percent of total store sales.

Supermarket Sales By Department		
	2005 Supermarket Sales	Percent of total sales
Grocery	\$148,530.48	38.76
Dry Grocery (Food)	\$103,461.15	27
Dry Grocery (Non Food)	\$30,411.94	7.94
GM/HBC (includes prescriptions)	\$42,716.54	11.15
Perishables	\$192,085.96	50.12
Meat/Fish/Poultry	\$50,023.00	13.05
Service Deli	\$13,325.00	3.48
Produce	\$39,207.70	10.23
Baked Goods	\$12,306.94	3.21
In-Store Bakery	\$8,045.70	2.10
Dairy	\$36,195.19	9.44
Frozen Foods	\$27,504.81	7.18
Grand Total	\$383,242.98	

Source: Progressive Grocer/Supermarket Business

59th Annual Consumer Expenditures Study, September 15, 2006, pg. 26-50

***Note: 2005 data derived by FMI from category sales figures and grand total figure published by Progressive Grocer*

Key Industry Facts - Prepared by FMI Information Service

Oct-06

for each grade of commodity, giving industry a common language for buying and selling. USDA has developed a number of specific guidelines to ensure that the standards are uniformly applied throughout the country. Shippers of fresh produce request commodity grading for quality and condition at shipping point to establish the shipping quality of the product.

Receivers use grading services to determine whether a shipment meets contract terms and to help select the best use for a particular shipment. If a request for official grading is based on U.S. grade standards, the official certificate covering the shipment will show which USDA grade the product meets. These certificates are accepted as legal evidence in all Federal courts.

While the grocery store may not insist that the produce meet a specific grade requirement or be officially graded, the quality of the produce will have to be acceptable to the store. Thus both the farmer vendor and the produce manager will need to agree on what constitutes an acceptable quality measurement and how shipments will be judged.

Food safety is another quality issue that producers must consider. Outbreaks of food-borne illness make news headlines on a regular basis. In the U.S., it is estimated that as many as 76 million people contract some type of food-borne illness each year. As a result, over 325,000 are hospitalized and about 5,000 deaths occur. Good agricultural growing and handling practices need to be addressed and will be required by any supermarket purchaser.

With this volume of sales, the assurance of a nearby, dependable supply of quality products is critical in developing and maintaining a supplier relationship with a supermarket. Local products have a market value to these stores provided the product is high quality and available when the store needs it.

But what is high quality? Quality may be defined differently by different parties. Producers consider a good appearance, few defects, high yield, disease resistance, and ease of harvest as signs of a quality product. For sellers, appearance quality is most important, but also important is firmness and a long storage life. For consumers, quality in produce is reflected in good appearance, firmness, good flavor, nutritional value, and safety.

As the basis for its fresh products grading services, the USDA has developed over 150 official grade standards for fresh fruits, vegetables, tree nuts, peanuts, and related commodities. They describe the quality requirements

Example of grading – Asparagus

“U.S. No. 1” consists of stalks of asparagus which are fresh, well trimmed, and fairly straight; which are free from decay and free from damage caused by spreading or broken tips, dirt, disease, insects, or other means.

(a) Size. Unless otherwise specified, the diameter of each stalk is not less than one-half inch.

(b) Color. Unless otherwise specified, not less than two-thirds of the stalk length shall be the color of the lot.

(c) Tolerances. In order to allow for variations incident to proper grading and handling, the following tolerances, by count, are provided as specified:

(1) For defects. 10 percent for stalks in any lot which fail to meet the requirements of this grade other than for trimming, including therein not more than 5 percent for defects causing serious damage: Provided, That not more than one-fifth of this latter amount, or 1 percent, shall be allowed for stalks affected by decay. In addition, not more than 10 percent of the stalks in any lot may fail to meet the trimming requirement.

(2) For off-size. 10 percent for stalks in any lot which fail to meet the specified diameter or length requirements.

State departments of agriculture, with USDA's assistance, are developing an audit-based program that is helping the U.S. produce industry verify voluntary adherence to the U.S. Food and Drug Administration's Guide to Minimize Microbial Food Safety Hazards for Fresh Fruits and Vegetables. Under the program, Federal-State Inspection Service (FSIS) personnel review a participating company's facility and agronomic practices, along with its documented procedures, to help determine if "Good Agricultural Practices" and/or "Good Handling Practices" are maintained. Again, while these standards are not mandatory, following good practices may be required by the store and often just make good business sense.

Business requirements

Becoming a supermarket vendor will most likely mean a change in the way you do business. It may require additional investment on your part as well as additional risk protection. As stated earlier, grocery stores will often demand packaging, grading, handling or processing procedures that may be unfamiliar. They can require more than just a simple washing which could lead to additional labor or machine costs.

Many supermarkets will require vendors to have a **Dun & Bradstreet DUNS number** and perhaps provide a D&B Supplier Evaluation Report. D&B is a national and international provider of credit information and credit reports. The D&B D-U-N-S Number is a unique nine-digit identification sequence which provides unique identifiers of single business entities. A D&B Supplier Evaluation Report is a financial report that is given by Dun & Bradstreet to the requesting supplier company showing their Risk Rating for the company of 1 to 9. More information on getting a D&B rating can be found at <http://smallbusiness.dnb.com/default.asp>.

Other supermarkets may require vendors to be on **Electronic Data Interchange (EDI)**. EDI is a computer to computer exchange of information used to transmit sales-related documents between trading partners. This results in essentially paperless transactions. For producers not familiar with this process, significant investments in time and money might be required to utilize this system, although EDI business services can be purchased from third-party service bureaus.

Additionally, as a general rule, the typical **farm liability insurance** policy does not provide protection for activities which happen off the farm premises and treats sales as business activity not covered by the farm liability policy. Additionally, typical farm insurance may not cover product liability claims. Product liability claims occur where the ultimate consumer of the product alleges a harm caused by that product. Thus, a farmer engaged in direct marketing of products to supermarkets will require additional insurance. A farmer involved in direct marketing of products would be well-advised to consult his or her insurance provider for the specifics of their policy and for information regarding the purchase of additional insurance.

Supermarkets will require vendors to carry product liability insurance. For example, Winn Dixie stores require a supplier

to complete a product guarantee and indemnification agreement with the company as well as carry a minimum of \$2 million in product liability insurance that includes Winn Dixie as an insured party. Essentially the producer is promising to provide monetary protection to the grocery store if someone sues them over harm caused by the farmer's produce.

Understanding contracts

Contracts determine how parties to the contract will need to keep the promises they make. For a contract to be enforceable, it must involve parties with the legal capacity to enter into a contract (i.e. not a minor or mentally incapacitated person); a legal subject matter; an offer of intention to doing something in exchange for something else; acceptance or willingness to be bound by the agreement; and consideration (something of value or a promise to do, or not to do, a certain act in the future.)

Entire books have been written on various types of agricultural contracts. Professor Neil Hamilton of Drake Agricultural Law Center in his work *A Farmer's Guide to Production Contracts* provides twelve rules to consider when entering into a contract. The following list, with some additions, is taken from those rules.

1. Remember the first rule of contracts – whoever wrote the contract took care of themselves. Although you might be a member of the group, such as a cooperative, with whom you are contracting, you still need to make sure the terms are fair and your interests are protected. The people representing the organization will take care of the interests of the group; it is your job to take care of your own interests.
2. Read and understand any contract before signing it. Because the words in the contract will be enforceable in the future, you need to understand what you are promising to do and what you can and cannot hold the other party responsible for. If the contract is relatively large or involves a long duration, you should consider having your attorney go through the contract with you to make sure you understand all of the provisions.
3. Know that complying with contract terms is required before you have performed under the contract. To receive a premium for raising organic vegetables, for example, you will need to certify they are organic. If you are unable to deliver the amount or type of product you promised, you may need to go out into the market to find replacement products, otherwise, you might open yourself up to a lawsuit for breach of contract. Because of this, you will want to make sure you are able to live up to the promises you make in the contract or be willing to pay the consequences.
4. Never assume your failure to perform a contract will be excused. If the buyer is damaged by your failure to perform under the contract, assume you will have to make amends. If you think you will not be able to fully meet your obligations under the contract, it is usually best to let the buyer know so both of you can deal with the situation. For instance,



before planting, you promised to deliver 1000 bushels of corn to your cooperative but your crop was wiped out because of a late freeze. You should inform the co-op that you will not be able to deliver the corn. The buyer might know about a good substitute source for the corn and be able to acquire the product for much less cost than you would be able to. You may still have to pay for any cost difference for the substitute corn, but you will not have to pay as much. You may also want to have a force majeure clause in your contract. Typically, force majeure clauses cover natural disasters or other “Acts of God”, war, or the failure of third parties - such as suppliers and subcontractors - to perform their obligations to the contracting party. It is important to remember that force majeure clauses are intended to excuse a party only if the failure to perform could not be avoided by the exercise of due care by that party.

5. Know the other party’s financial situation and performance history. This is especially important when you are not paid immediately for your product because in this case you become a creditor for the buyer. If the buyer experiences serious financial problems after you deliver the product, you may never get paid.

6. Weigh the advantages of the contract in terms of higher prices against any increased costs or risks. This suggestion is especially important in niche and specialty markets. Although you usually receive a higher price for the products, you will usually face greater costs or risks as well.

7. Remember proposed contracts are always subject to negotiations. Many contracts dealing with the purchase of agricultural goods appear to use fixed “boilerplate” language. But all contracts are negotiable before signing; nothing forces you to sign the contract until you are satisfied with the deal. You should be aware; however, that nothing forces the other party to deal with you either if you won’t accept their terms. Where competition is fierce, you may have to be willing to deal on the other party’s terms.

8. Make sure any changes to the contract are made in writing. Although it can be difficult to change a contract after it is signed, shifting conditions can persuade both parties it is in their best interest. To ensure the changes are enforceable, the new terms need to be in writing and signed or initialed by both parties.

9. Do not rely on oral communications made by the buyer, either before the contract is signed or during the contract performance. If your agreement ever has to be interpreted in court, the court will most likely rely only on the written language in the contract itself. Courts usually refuse to accept evidence of oral agreements that goes against the contract language, and most contracts include a similar restriction. Because of this, you will want to get in writing any agreements important to you. If you are unable to do this, then make sure to keep copies of any documents, such as letters, payments sheets, and checks you can use to show what was agreed to.

10. Keep good records of your performance. You never know when you will need to prove you have lived up to your end of the bargain. Keeping good records is the only way to do this. This is especially true when a crucial part of the contract requires you to raise your product in a certain way. Whether this means not using antibiotics, raising organic tomatoes, or treating your animals in a certain way, if you have records indicating you have done what you promised, you can avoid headaches in the future.

11. Do not hesitate to ask a question when you do not understand what is happening. The best time to ask questions about what you are promising to do is before you promise to do it. For example, if your contract with a wholesaler requires you to certify your operation with a third party certifier, make sure you understand what this will entail. To make sure you understand the terms and concepts of the contract, you can ask questions of the buyer, your advisors, extension officers or others who are growing products under similar contracts.

12. Stay in touch with the other party to the contract. Regular communication with the buyer will help prevent misunderstandings about the contract or about what is required to satisfy the contract requirements. Open lines of communication will help both parties make sure that each is doing what the other party understood they would do.

Tips

Based on remarks made by Ron Matsumura, Matsumura Farm & Yakima Farmer’s Market, at the 2002 Washington State Small Farmers Conference on selling produce to grocery stores:

1. All stores want to see samples
2. The stores may not start buying right away as they may have other farmers selling direct or wholesalers who purchase locally
3. Do not visit once and just leave a business card. Visit often with different samples and visit in the off-season.
4. The main thing being promoted is freshness, so pick the product that morning and keep the quality up.
5. Once you are delivering to a store, you need to keep in contact with them everyday, particularly if you can’t deliver so that they can find another source.
6. Availability to deliver at the time of day asked is key as stores often want products delivered only at certain times.
7. One way to get started is to ask the produce manager if there is a specific crop that you can grow for the store and provide a steady supply.
8. Selling cheaper may be a way to get in a store, but in the long run it is a quicker way of losing money. Cost to harvest, box and deliver must be factored in to the price.
9. If you want to sell a large quantity at one time, the produce manager is going to want a deeper discount because more volume must be moved and that requires the store to lower the price.
10. Try to keep your prices near major wholesaler prices.

Strategies for success

The key to success in produce marketing is the establishment of good relationships with buyers over time. New growers, in many cases, will have to prove to potential buyers that they are serious about the business and are able to grow, grade, pack, and in some cases, pre-cool produce in the way the buyer specifies.

Fortunately, high transportation costs make local produce more attractive to buyers within the area. Also, local consumers have become more interested in buying fresh, high quality vegetables.

But what if you can't be certain that you can grow enough to meet a grocery store's demands? What if you don't have enough capital to meet insurance or packaging demands?

One solution is to start or join a cooperative. Grower-owned cooperatives or marketing associations are able to assemble truckloads of produce required by large customers, which would not be possible for small growers acting individually. Both marketing associations and cooperatives are a business organization owned by grower-members. A grower-owned marketing association implements agreements among members which specify the type and volume of produce sold by each member. Some marketing associations do not take possession of member's produce but serve only to connect members with buyers. Depending on its size, a grower-owned cooperative can have significant capital requirements such as packing equipment, freezing units, and coolers. Quality control is essential, and both marketing associations and cooperatives enforce grading and packing requirements. Formally organized cooperatives may also provide technical assistance to growers and help secure seeds, boxes, and other needed supplies. In some cases, specialized equipment is shared by growers. Co-ops usually own and operate facilities with some combination of grading, packing, cooling, and storage equipment for their members. Members typically employ a manager to oversee the co-op's daily operations.

Starting a cooperative is a complex project. A small group of prospective members discuss a common need and develop an idea of how to fulfill it. Depending on the situation generating the idea, a new cooperative may be welcomed with enthusiasm or with vigorous competitive opposition. If opposed, leaders must be prepared to react to various strategies of competitors such as price changes to retain potential cooperative members' business; better contract terms or canceled contracts; attempts to influence lenders against providing credit; and even publicity, misstatements, and rumors attacking the cooperative business concept.

Regardless of the business climate for the proposed cooperative, leaders must demonstrate a combination of expertise, enthusiasm, practicality, dedication, and determination to see that the project is completed.

Because each situation is unique, there is no specific recipe for forming a cooperative. The steps for starting a co-op outlined here should be considered guidelines.

Steps for cooperative formation

1. Organizers should invite leading potential member-users to meet and discuss issues, and identify the economic need a cooperative might fill. For example, one need might be to acquire significant volumes and varieties of crop production in order to supply a supermarket's produce needs. Another might be to share marketing or packaging costs amongst growers. Economic need is fundamental to the formation and successful operation of any cooperative. If they have been identified, advisers in cooperative formation or financial and legal issues should also be present.

2. Conduct an exploratory meeting with potential member-users and if the group votes to continue, select a steering committee. The steering committee members should have a keen interest in the cooperative, be well-respected within the community, and have sound business judgment. Committee members often become the initial organizers and members of the cooperative's first board of directors. The steering committee is charged with examining the feasibility and scope of the proposed cooperative.

Typical steering committee members include:

- President- Often the "project champion"; facilitation skills a plus.
- Vice President - May chair key subcommittee.
- Treasurer - Manages funds; may lead business plan phase; accounting skills a plus.
- Secretary - Coordinates all communications; computer skills a plus.
- Non-officers

Source: University of Wisconsin Center for Cooperatives

3. Survey prospective members to determine the potential use of a cooperative. Formal survey techniques are best for estimating potential membership. An adviser usually drafts the survey questionnaire for the steering committee to review. The questionnaire should elicit information on:

- Volume of need or use in an appropriate unit of measure for the most recent or typical year;
- Member-user experience and capabilities-years in present location, overall success, demand specific to the cooperative venture, and production and marketing success;
- Variety of products or services to be offered or needed;
- Period of need or services;
- Current unit value-sales price or cost per unit
- Member-user-location of use or need;
- Familiarity with and use of other cooperatives and willingness to join, finance, and use one.



The adviser will analyze the survey and prepare a report. A sample questionnaire is included in the back of this publication.

4. Discuss survey results at a second general meeting of all potential members and vote on whether to proceed. Survey results should reveal how potential members identify the economic need and the degree of interest in a cooperative to fulfill that need. The survey should indicate the level of support in terms of business volume and if financial commitment is sufficient to organize and successfully operate the cooperative. The final action at this meeting is a vote on whether to continue.

5. Conduct a feasibility study, including needs or use cost analysis. The steering committee must now identify suitable markets, sources of supply, and service providers and their requirements. The size and scope of the project should be identified. A feasibility study must be conducted to analyze facilities needed, operating costs, capitalization, and financial requirements. The purpose of a feasibility study is to examine critical opportunities and obstacles that might make or break the proposed cooperative business. The feasibility study should give the group a good idea of whether the co-op is likely to be successful as a business.

The critical issues that a feasibility study analyzes include the number and interest level of potential members; market issues (can the co-op get better prices, better quality or better services than potential members currently get through other means?); operating costs; start-up costs; and availability of financing. It should include review of the sensitivity of the business to changes in volume or operating costs, wage rates, operating efficiencies, interest rates, etc.

If facilities are needed, and none may be, they can include land, buildings, and equipment. The committee bases estimates on the expected business volume by the probable members, plus some allowance for future expansion. The cost of buying or leasing existing facilities and equipment should be investigated. Professionals and skilled technicians should be consulted to determine the need for new facilities and assess the value of any existing facilities being considered. Operating costs include employee salaries, utilities, taxes, depreciation, interest, and costs of office and other supplies. The adviser, with help of the committee, determines what items to include and their probable cost, based on operating assumptions. If the operating revenues for the projected volume of business show little or no margins over estimated costs, the committee should project the volume needed to produce acceptable margins.

6. Discuss results of the feasibility study and cost analysis at a third general meeting. Vote by secret ballot on whether to proceed.

7. Develop a business plan. The business plan should address capitalization requirements for the cooperative and how these will be met. It should also include the background and purpose of the organization, products, market analysis, marketing plan, financial data, organizational structure and management, ownership and risk factors. Few steering committees have sufficient skills to develop a thorough business plan. Obtaining technical assistance can make the difference between a business plan that gets a loan and one that does not. Although costs vary depending on the co-op type and sector, \$10,000 is not unusual for a consultant's services in developing a business plan. Note that many state governments offer grants and loans to assist start-ups with technical assistance and business planning.

8. Present business plan at the fourth general meeting. If participants agree to proceed, decide whether to keep or change the steering committee members.

9. Prepare legal papers to form the business. Title 36, Chapter 618 of the Florida Statutes permits the formation of non-profit agricultural cooperative marketing associations. The associations are deemed non-profit in the sense that they are organized for the profit of the producer-members, but not for the profit of the organization itself. No person doing business in this state can use the word "cooperative" as part of its corporate or other business name or title unless it has complied with the provisions of this chapter. An attorney should be consulted as to the proper process for incorporating a cooperative under Chapter 618.

10. Once incorporated, call a meeting of charter members and all potential members to review and adopt the proposed bylaws. Elect a board of directors.

11. Convene the first meeting of the board and elect officers. Assign responsibilities to implement business plan.

12. Conduct a membership drive. A new cooperative must have enough members to start operation and justify its existence. Additional members may be needed to financially strengthen the association or increase its volume.

13. Acquire capital and develop a loan application package. Starting a new cooperative can create a need for substantial capital. The task of financing a new cooperative with member equity alone is usually impossible. Therefore, additional sources for funds are needed. Local area banks are good possibilities. Others are the cooperative banks in the Farm Credit System, the National Cooperative Bank, State Rural Development offices, and other governmental funds, depending on what may be available at the time. Another option may be to

sell preferred stock to members and others in the community.

14. Hire the manager. Education, experience and an ability to work with people are the most important characteristics of a co-op manager. Unlike investor-owned corporations, a cooperative manager should not participate in cooperative ownership. Career decisions could conflict with ownership interests. Cooperatives typically do not offer managers stock options or profit sharing, although some cooperatives have incentive plans.

15. Acquire the facilities. The job that probably takes the most foresight, analysis, judgment, and timing is acquiring a business site, building, machinery and equipment, and other supplies. The steering committee's business analysis is the blueprint. The newly selected manager should participate in facility decisions.

16. Begin operations.



Tips for new cooperatives to avoid potential pitfalls:

- *Lack of clearly identified mission - A new cooperative shouldn't be formed just for the sake of forming one. The potential member-user must identify a clear mission statement with definite goals and objectives.*
- *Inadequate Planning - Detailed plans for reaching defined goals and the mission are important. In-depth surveys of the potential member-user needs coupled with business feasibility studies are necessary. Stop the organizational process if there isn't sufficient interest in the cooperative by potential member-users or if it isn't a sound business venture.*
- *Failure to use experienced advisors and consultants - Most persons interested in becoming member-users of a new cooperative haven't had cooperative business development experience. Using resources persons experienced in cooperative development can save a lot of wasted motion and expense.*
- *Lack of member leadership - Calling on the services of experienced resource persons can't replace leadership from the organizing group. Decisions must come from the potential member-user group and its selected leadership. Professional resource persons should never be in decision-making positions.*
- *Lack of member commitment - To be successful, the new cooperative must have the broad-based support of the potential member-users. The support of lenders, attorneys, accountants, cooperative specialists, and a few leaders won't make the cooperative a business success.*
- *Lack of competent management - Most cooperative members are busy operating and managing their own businesses and lack experience in cooperative management. The directors hire experienced and qualified management to increase the chances for business success.*
- *Failure to identify and minimize risks - The risk in starting a new business can be reduced if identified early in the organizational process. Careful study of the competition, Federal, State, and local Government regulations, industry trends, environmental issues, and alternative business practices helps to reduce risk.*
- *Poor assumptions - Often, potential member-users and cooperative leaders overestimate the volume of business and underestimate the costs of operations. Quality business assumptions tempered with a dose of pessimism often proves to be judicious.*
- *Lack of financing - Regardless of the amount of time spent in financial projection, most new businesses are underfinanced. Inefficiencies in startup operations, competition, complying with regulations, and delays often are the causes. Often, the first months of business operations and even the first years are not profitable, so adequate financing is important to survive this period.*
- *Inadequate communications - Keeping the membership, suppliers, and financiers informed is critical during the organization and early life of the cooperative. Lack of or incorrect information can create apathy or suspicion. The directors and management must decide to whom and how communications are to be directed.*

Source: Rapp, Galen and Gerald Ely. *How to Start a Cooperative*, University of Wisconsin Cooperative Center, Cooperative Information Report 7, revised September 1996.

Grocery Store Contacts:

Albertsons

Albertsons is the second largest food-drug retailer in the nation and operates under the additional banners of Jewel-Osco, Acme Markets, Sav-on, and Osco Drug. Albertsons has over 2,300 retail store locations.

Go to the Albertsons Online Supplier Portal <https://supplier.albertsons.com/B2BPortal/> and fill out the New Supplier Application.

Contact the Produce Merchandising Department to get signed up to use all of the features of the Albertsons Online Supplier Portal
producemerchandising@albertsons.com

Your product information must be submitted in writing on business letterhead stationary and include:
 Detailed description of the product and its uses
 Suggested retail and cost information
 List of other companies who sell the product
 Any promotion and marketing specifics
 Authorized contacts
 Business history
 Brochure (if available)

How To Address These Requests:

The package should be addressed to the appropriate department, such as Grocery, Produce, and Meat

Food Division: (Albertsons, Acme, and Jewel)
 Attention: "Produce Department"
 Albertsons
 250 Parkcenter Boulevard
 Boise, ID 83706

Bruno's Supermarkets, Inc.

Bruno's operates approximately 2 dozen supermarkets throughout Alabama and Florida under the Bruno's and Food World names. Since 2005, Bruno's has been owned by the investment firm Lone Star Funds, based in Dallas, Texas.

The main contact information for Bruno's is:

800 Lakeshore Parkway
 Birmingham, AL 35211
 Phone: 205-940-9400
 Fax: 205-912-4628
 Toll Free: 800-780-7813

Publix

Founded in 1930, Publix Super Markets is the largest and fastest-growing employee-owned supermarket chain in the United States and one of the 10 largest-volume supermarket chains in the country. Publix operates 889 stores in 5 states, with most located in Florida.

To conduct business with Publix, new vendors must complete the pre-qualification process. If successful, the applicant will then be granted access to a vendor-specific home page. Once on your home page, visit the Document Library and open the file called Read Me First - Instructions. You will then be able to access a detailed list of each main Corporate Purchasing group and will be able to request an appointment to show Publix your product offerings or to submit samples.

To pre-qualify, visit:

<http://purchasing.publix.com/Corporate.aspx>



Wal-Mart

Wal-Mart Stores, Inc. is the world's #1 retailer, with more than 5,200 stores, including some 1,350 discount stores, nearly 2,000 combination discount and grocery stores (Wal-Mart Supercenters in the U.S. and ASDA in the U.K.), and 550 warehouse stores (SAM'S CLUB). The company also owns 37% of the Japanese supermarket chain SEIYU. Wal-Mart also has operations in Canada, Mexico, Asia, Europe, and South America.

TO SUPPLY TO YOUR LOCAL WAL-MART:

1. Contact the Store Manager/Food Merchandiser.
2. The Store Manager/Food Merchandiser will review your product.
3. If your product is accepted, you will fill out a Local Supplier Questionnaire, which will be obtained from the Store Manager/Food Merchandiser.
4. You will obtain a Supplier Evaluation Report (SER) from Dun & Bradstreet by calling **(800) 333-0505**; it will cost you about **\$75**.
5. The Store Manager/Food Merchandiser will submit the Questionnaire along with your Dun & Bradstreet number and SER, UCC Membership number, and Certificate of Liability Insurance to the Wal-Mart Home Office.
6. Wait for further correspondence.

TO SUPPLY TO WAL-MART MORE BROADLY:

1. Obtain a Supplier Evaluation Report with Dun & Bradstreet (D & B).

A D&B Supplier Evaluation Report (SER) is a financial report that is given by "Dun & Bradstreet" to the requesting supplier company showing their Risk Rating of 1 to 9 and other information concerning the requesting company. Contact D&B **800.234.3867** to give information for this report (SER) to be established before filling out the questionnaire. D&B will ask questions and a fee will be charged by D&B to establish this report (SER). When filling out the On-line questionnaire for WM or Sam's, the screen will request your credit card number, which will enable you to purchase the Supplier Evaluation Report for **\$75**. The SER will attach to the questionnaire for submission to Wal-Mart/ Sam's Club. If this report is not available/or does not attach -the questionnaire will not process.

2. Complete the Online Supplier Questionnaire.

Access the questionnaire through the website <http://www.walmartstores.com/> - click on the "Become a Supplier" tab at the top of the webpage - Click on "Fill out the Supplier Proposal Questionnaire." Choose Wal-Mart or Sam's Questionnaire fill out, purchase the D&B SER and submit. Once the questionnaire is submitted the Supplier cannot view anything until the buyer either rejects the questionnaire and/or initiates the supplier agreement. The Supplier will

know the questionnaire has been received by Supplier Development IF the supplier receives an e-mail from RL (Retail Link) within 24 hours or less of submission. This e-mail gives the supplier their user id and password for access to retail link if the supplier agreement is granted/initiated. Once the questionnaire is reviewed by the Buyer- the Supplier will receive an email message either rejecting or initiating the supplier agreement. A copy of your Certificate of Liability Insurance will be requested once your company has been accepted by the buyer (a fax number will be provided when the insurance certificate is required). Please do not make changes or purchase insurance until requested by Wal-Mart Stores, Inc. An Accord Liability form is preferred.

3. Send copy of your Uniform Code Council (UPC) letter identifying your company's bar code labeling and a sample of your Product with pricing or product literature so an informed decision can be reached regarding your product or service (all samples become the property of Wal-Mart Stores, Inc.).

Supplier Development

Wal-Mart Stores, Inc.

702 SW 8th St.

Bentonville, AR 72716-0145

4. If you are a Minority / Women-Owned Business, FAX a copy of your current minority or women-owned certification to 479-277-2532.

Winn-Dixie

Winn-Dixie Stores, Inc. is one of the nation's largest food retailers. Founded in 1925, the Company is headquartered in Jacksonville, FL. The Company currently operates 522 stores in Florida, Alabama, Louisiana, Georgia, and Mississippi.

To initiate the produce supplier process, Winn-Dixie requires that you complete all setup documents accessed via the company Website at <http://www.winn-dixie.com/company/editp/NewVendorSetup.asp>

The Director of Produce for Winn-Dixie Stores, Inc. is:

Michael Krage
Phone: 904-370-7130
Fax: 904-783-5309
MikeKrage@winn-dixie.com

The main contact information for Winn-Dixie Stores is:

5050 Edgewood Ct.
Jacksonville, FL 32254-3699
Phone: 904-783-5000
Fax: 904-783-5294



WINN DIXIE VENDOR INFORMATION

Special Note: Go to www.winn-dixie.com for latest forms!

All vendors are required to be on EDI, please contact WD's EDI department or visit winndixie.com

Current Vendor #: _____ Date Submitted: _____

Buyer Number: _____ Buyer Name: _____
 Facility/DC: _____ Connecting Vendor: _____

CORPORATE VENDOR Name: _____ Email Address: _____ Address: _____ City: _____ State: _____ Zip Code: _____ Phone: _____ Fax: _____ Contact: _____ Duns Number: _____ Additional Contact: _____	SHIPPING INFORMATION (must be completed for all vendors) Standard Point Location Code (SPLC) if any: Shipping Points (City, State, Zip) Suffix <u>FOB*</u> 1- _____ 2- _____ 3- _____ *FOB: O=Origin ; D=Destination Shipping Phone _____ Shipping Contact _____ Lead Time _____ (Calendar Days From Order To Arrive)																																				
REPRESENTATIVE (MAIL TO INFO): Broker Number: _____ Firm Name: _____ Sale Rep Name: _____ Rep Phone: _____ Email Address: _____ Address: _____ City / State: _____ Zip Code: _____ Order Fax #: _____ Additional Contact: _____	FREIGHT INFORMATION Prepaid: _____ PP&Add: Rate: _____ Per: _____ Freight Bill Rate: _____ Per: _____ Backhaul: Rate: _____ Per: _____																																				
Account Payable Remit to Address: Vendor # _____ Name: _____ Address: _____ City: _____ State: _____ Zip: _____ A/P Contact: _____ A/P Phone: _____ Terms: _____ % _____ Days _____ Net Days	SHIPPED VIA ("X" in column(s) that applies) Truck: _____ Air: _____ Water: _____ Rail: _____ PICK UP INFORMATION (must be completed for pick up) Min Pick Up: _____ Rate Per: _____ Appt Required: ___ Yes ___ No Time Zone _____ Hours of Operation for Cust.Pickup: _____ Pickup Rates By D.C.: Baldwin _____ Miami _____ Montgomery _____ Hammond _____ Orlando _____ Jax GMD _____																																				
Address For All Deductions Backup: Address: _____ City: _____ State: _____ Zip: _____ Deductions' Contact: _____ Deductions' Contact P: _____	RECLAIM INFORMATION Method Of Disposition: ("X" in column that applies) WD Discretion: (list a "S") _____ Auto Destroy: (list a "T") _____ Auto Donate: (list a "D") _____ Vendor Review Pick Up: (list a "P") _____ Vendor Review Ship Back: (list a "R") _____ Hold Harmless Form and Method Of Disposition agreement must be completed and on file with the Winn Dixie Supply Chain Manager.																																				
VENDOR PRICING BRACKETS (need a min and max) <table border="1"> <thead> <tr> <th></th> <th>MIN QTY</th> <th>TYPE*</th> <th>% DISC</th> </tr> </thead> <tbody> <tr><td>MINIMUM</td><td></td><td></td><td></td></tr> <tr><td>BRACKET 1</td><td></td><td></td><td></td></tr> <tr><td>BRACKET 2</td><td></td><td></td><td></td></tr> <tr><td>BRACKET 3</td><td></td><td></td><td></td></tr> <tr><td>BRACKET 4</td><td></td><td></td><td></td></tr> <tr><td>BRACKET 5</td><td></td><td></td><td></td></tr> <tr><td>BRACKET 6</td><td></td><td></td><td></td></tr> <tr><td>MAXIMUM</td><td></td><td></td><td></td></tr> </tbody> </table>		MIN QTY	TYPE*	% DISC	MINIMUM				BRACKET 1				BRACKET 2				BRACKET 3				BRACKET 4				BRACKET 5				BRACKET 6				MAXIMUM				LIABILITY INFORMATION Suppliers must meet the following insurance requirements. Product guarantee and indemnification agreement completed and on file with WD Supply Chain Manager. Current product liability certificate of insurance on file with Winn Dixie named as additional insured. Minimum of \$2 Million dollar limit of liability.
	MIN QTY	TYPE*	% DISC																																		
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BRACKET 2																																					
BRACKET 3																																					
BRACKET 4																																					
BRACKET 5																																					
BRACKET 6																																					
MAXIMUM																																					

Type: B=Cube; D=Dollars; L=Pounds; P=Pallets; U=Cases;
 Z=Dozens; X= Unit Factor 1 (COF)

Authorized Signature: _____

<http://www.winn-dixie.com>

Case Study - Honeyacre Produce Company

Products: Greenhouse grown premium tomatoes, seedless cucumbers and tri-colored peppers. Products are vine-ripened and pesticide free.

Target market: mid-to-upper income health conscious consumers and consumers seeking taste and versatility

Market area: Boulder and Fort Collins, Colorado

Minimum quantity: 300 pounds of tomatoes weekly to cover fixed retail space costs.

Pricing: Honeyacre considers several things when pricing their product. They begin with the previous year's prices and then make adjustments based upon several variables: direct costs of production, market prices, retail markup, seasonal demand fluctuations, and product quality. In order to price competitively, they inspect other greenhouse producers' tomato prices. They pay more attention to stable greenhouse prices that prevail in typical weeks when local outdoor production is not in season. Excessively low prices during the peak seasons and other atypical weeks are disregarded because they tend to be an indication of "dumping" (perhaps another grower had an abundance of produce, or it represents a one-time special purchase for the retailer). Thus, the price is not an indication of what the market will bear.

Honeyacre believes that they have strong relationships with the produce managers at their retail stores, with their restaurant clients, and with their farmers' market customers.

Retailers are usually willing to share their markup policy with Honeyacre because of their positive and trusting relationship. Attention to quality control has in the past resulted in lower than average markups, resulting in relatively greater profits for Honeyacre. If Honeyacre is developing a new pricing policy for a new market, they usually begin by applying markups that they have obtained from their current customers. All local produce must bear seasonal price fluctuations, so Honeyacre tries to get the best possible price early in the season before field-grown produce arrives at the farmers' markets.

Grocery store experience: Honeyacre's experience with large distributors and warehouses has not been positive. In 1998, they approached a large supermarket warehouse. The warehouse was impressed by their product and purchased Honeyacre's tomatoes for an entire season. At that point, the warehouse indicated that Honeyacre needed to produce enough vegetables to supply the entire Colorado chain or cease to be a

supplier. Honeyacre felt that this was an impossible task because of their business's objectives of producing a high-quality product, their current size, the cost of increasing their operation, and their desire to closely monitor their product.

Source: *Western Profiles of Innovative Agricultural Marketing*, Wendy Umberger and Dawn Thilmany, Department of Agricultural and Resource Economics, Colorado State University

Case Study - Amazing Grains Natural Food Market

Business: Co-operatively operated organic food store located in Grand Forks, North Dakota

Main suppliers: Amazing Grains is a member of the Blooming Prairie Cooperative warehouse in Minneapolis, MN, which serves as its main supplier. Blooming Prairie Cooperative receives its produce nationwide and supplies Amazing Grains and other co-op stores around the Upper Midwest. Roots and Fruits, another co-op distributor, provides Amazing Grains with fruit, vegetables, and some cheese. Roots and Fruits gets its produce both nationwide and internationally. For instance, the pears are ordered from Argentina and other produce is ordered from Mexico. Amazing Grains purchases only organic produce from Roots and Fruits, most of which comes from California, Florida, and Texas, especially in colder months.

Relationship with local suppliers: When asked how they would define "local," Amazing grains said that "local" is when the farmer/producer delivers it directly to the store. They do business with local suppliers especially if they have products they think are good ones they could sell and that no one else carries. But Amazing Grains likes to keep those to a minimum because dealing with many local suppliers can be difficult. Thus, in terms of volume, the amount of locally-produced foods is small.

Amazing Grains orders pickled garlic from a producer in Minot, ND, and procures fresh produce from Euclid, MN. Amazing Grains previously dealt with a local producer for edible beans, but that arrangement did not work well. It also ordered potatoes from a local producer; however, he built a warehouse and now ships all his potatoes to an organic warehouse in Minneapolis. He decided that he did not have time to deal with local marketing.

Amazing Grains would like to purchase more local produce if they were products they wanted, were of good quality, and for which they do not already have a local supplier. The produce or products must be organic or at least all-natural. Processed foods must not have any

artificial ingredients. Amazing Grains said they must be more careful with fresh produce because it will go bad if it does not sell. Seasonal produce does not sell well because most members had access to fresh produce from their own gardens or from the farmers' market.

Amazing Grains would be interested in working with an organization to develop a producer co-op to market fresh or processed organic or natural foods if it would be able to deliver produce consistent in quality, quantity, and delivery. They would prefer to deal with **one supplier than with several small producers**.

Source: *Sale of Locally Produced Foods to a Cooperative Food Store, Grand Forks Food Co-operative — Amazing Grains, Grand Forks ND*, Interview with Betsy Perkins, Manager, by Curtis Stofferahn, University of North Dakota, May 2000.

Case Study – Homegrown Wisconsin

The seeds of Home Grown Wisconsin (HGW) Cooperative were planted back in the spring and summer of 1994 with a series of lunch meetings at L'Etoile, a nationally renowned, upscale restaurant in Madison, Wisconsin. The mission of this Wisconsin group was to “work with farmers, restaurants, retailers, distributors, processors, etc. to improve the marketing infrastructure for handling local and sustainable agriculture products.” It would be fully two years before HGW would make its first sale of organic produce, and another two years before the co-op would really show a profit.

Background research: The group began with a survey of farmers to ascertain local interest; then used the data to obtain a grant to perform additional market research. The goal of this research was to find out (1) whether Wisconsin food buyers valued locally-grown food products, (2) how much local food they purchased, and (3) what kept them from buying more. The team surveyed 300 food buyers, and also conducted focus group interviews with dozens of farmers, chefs, retailers, and food service providers.

Sixty-four of the surveys were returned (21 percent). After defining “local” on their own terms, 78 percent of the food buyers agreed that there was some market value in being able to tell their customers, “This food is locally grown.” The focus group interviews revealed that restaurateurs also value “sustainable” and “organic,” but more on a personal level—that is, those labels do not translate as easily into a value for most of their customers. The food buyers also indicated what was preventing them from purchasing more local farm products. The absence of a central supplier of these products was second only to seasonal availability as the number one obstacle. Price was also a limiting factor,

but less so for some of the higher-end restaurants or the natural food groceries.

Problems encountered: Failed to perform complete financial analysis; underestimated the amount of work needed to make sales each week; farmer's too busy with own businesses to pay attention to the co-op; failed initially to develop a strong marketing plan; too narrow a marketing area

Keys to Success: First, it was the people. The dozen or so individuals who made substantial contributions to the project offered their talents and their time. Other contributing factors included grant support from the state; market research; market demand; high-quality produce; professional service; and finally, **marketing, marketing, marketing**. Without the support of two grants totaling \$22,600, the project simply never would have happened. That money made it possible to conduct the market research that showed there was a demand for the co-op's product. Finally, the farmers of HGW came to realize that it is not enough to produce good food. You must also find someone to buy it—preferably at the highest possible price. That requires a marketing strategy that involves continuous research, risk taking, and promotion.

Source: Lawless, Greg. *New Generation Cooperatives: Case Study Home Grown Wisconsin: The Story of a New Producer Cooperative*, Illinois Institute of Rural Affairs, Western Illinois University



Cooperative Development Sample Forms

Cooperative organizers, advisers, and leaders should not just sit down and copy these, or any other set, of legal documents. These foundation documents should only be adopted after review by a competent attorney, one who understands the unique characteristics of cooperatives and the industry in which the association does business. This will maximize the likelihood that the documents will conform to applicable law and meet the specific needs of the association and its members.

Warning: Legal Content

Articles of Incorporation: Incorporation gives the cooperative a distinct legal standing. Members generally are not personally liable for the debts of an incorporated organization beyond the amount of their investment. The articles indicate the nature of the cooperative business. The articles should specify rather broad operating authority when incorporating even though services may be limited at the beginning. These articles usually contain the name of the cooperative, principal place of business, purposes and powers of the association, proposed duration of the association, names of the incorporators, and information about the capital structure. Filing the articles of incorporation (usually with the Secretary of State) activates the cooperative corporation.

Bylaws: Shortly after the cooperative is incorporated, the members adopt a set of bylaws. Bylaws provide a detailed description of the structure and method of operation of the cooperative. Bylaws are a working plan for how the association should function. Bylaws normally are not filed with the State. But like the articles, they are treated in a manner similar to statutes by the courts. Failure of the leadership to follow the bylaws can also lead to legal liability.

Capper Volstead Act of 1922: is the federal legislation that provides the legal foundation for cooperative business in the United States. The act authorized various kinds of agricultural producers to form voluntary co-operative associations for purposes of producing, handling and marketing farm products - that is, it exempted such associations from the application of the antitrust laws. This is why it is legally acceptable for growers to meet and discuss market share and other business information, with the intent of cooperating for the benefit of their individual businesses. For more information, see the National Agricultural Center overview of cooperatives at <http://www.nationalaglawcenter.org/assets/overviews/cooperatives.html>.





Sample Cooperative Member-User Questionnaire

Prepare an introductory letter to accompany the survey and state the purpose. In the letter, stress that the data will be kept confidential and used only for the stated purpose.

Producer Survey: XYZ Vegetable Cooperative

While you are not required to respond, your help is needed to provide data for a new vegetable marketing cooperative. All answers will be treated confidentially.

Contact person for the farm _____
Address _____ Phone _____

Farm location-see attached map - County _____ Grid No. _____

How much of your vegetable acreage is irrigated? _____ acres.

Give type and capacity for any of the following facilities and equipment you own.
type and capacity

- Cooling facilities _____
- Packing equipment _____
- Refrigerated truck _____
- Non-refrigerated truck _____
(over 1 ton) _____
- Mechanical harvester _____

5. Check the following supplies or services you are interested in obtaining from the proposed cooperative if a competitive fee is established.

- _____ Packing containers
- _____ Vegetable marketing
- _____ Vegetable packing
- _____ Seeds
- _____ Plants
- _____ Other (specify)

6. Are you willing to follow the proposed cooperative's recommendations on varieties to plant and cultural and harvesting practices?

Yes _____ No _____

7. Banks generally require cooperative owners to raise 35 to 50 percent of the needed capital. Assuming the cooperative appears feasible, are you willing to make an initial cash investment in it in proportion to your intended use?

Yes _____ No _____

What is the maximum amount you are willing to invest?

8. Per-unit retains are a capital investment that is deducted from patron's sales proceeds in proportion to the volume of products they market through the cooperative. Are you willing to finance the cooperative with per-unit retains?

Yes____ No_____

9. A delayed producer payment is one way of reducing equity for operating capital. Are you willing to accept a delayed crop payment in lieu of a larger initial cash equity investment?

Yes____ No_____

If yes, for how long? ____ days

10. In a pool, producers are grouped by type and grade over a selected period of time (week, month, or season). Producers are paid the average price the cooperative receives for the pooled products less packing and marketing fees. Are you willing to market your vegetables on a pooled basis?

Yes _____ No _____

11. Are you willing to sign a marketing agreement to sell all or a fixed quantity (acreage) of your vegetables through the proposed cooperative?

Yes _____ No _____

12. Where do you plan to market your vegetables in the current year (by percentage of production)?

- a. Roadside stands _____ percent
- b. Farmers' markets _____ percent
- c. Other markets (specify) _____ percent

13. Please record production and marketing data in the accompanying table.

Crop	Months usually harvested	Major markets in this year	Harvested or to be planted					Volume sold		Acreage you plan to sell through co-op in 200Y	Acreage you plan to contract with co-op in 200Y	Production Experience
			2 years ago	One year ago	This year	Next year	2 years out	2 years ago	Last year			
Asparagus												
Broccoli												
Cabbage												
Cauliflower												
Eggplant												
Greens												
Peppers												
Beans												
Squash												
Corn												
Tomatoes												

Source: Rapp, Galen and Gerald Ely. *How to Start a Cooperative*, University of Wisconsin Cooperative Center, Cooperative Information Report 7, revised September 1996.

(7) To buy, hold, and exercise all privileges of ownership over such real or personal property, as may be necessary or convenient for the conduct and operation of any of the business of the association or incidental thereto;

(8) To sell, convey, and transfer all of the assets of the association; provided, such sale shall be consented to by not less than two-thirds of its members or by the holders of not less than two-thirds of its common stock, which consent shall be given either in writing, or by vote at a special meeting of its members or stockholders called for that purpose;

(9) To establish, secure, own, and develop patents, trademarks, and copyrights;

(10) To do each and everything necessary, suitable or proper for the accomplishment of any one of the purposes, or the attainment of any one or more of the objects herein enumerated, or conducive to or expedient for the interest or benefit of the association, and to contract accordingly; and in addition, to exercise and possess all powers, rights, and privileges necessary or incidental to the purposes for which the association is organized or to the activities in which it is engaged, and any other rights, powers, and privileges granted by the laws of this state to corporations for profit, except such as are inconsistent with the express provisions of Chapter 618 of the Florida Statutes; and to do any such thing anywhere;

(11) Not to, during any fiscal year thereof, deal in or handle products, machinery, equipment, supplies, or perform services for and on behalf of nonmembers to an amount greater in value than such as are dealt in, handled, or performed by it for and on behalf of members during the same period.

MEMBERSHIP: The association shall not have capital stock but shall admit applicants to membership in the association upon such uniform conditions as may be prescribed in its bylaws. This association shall be operated on a cooperative basis for the mutual benefit of its members as producers. Membership in the association shall be restricted to producers and associations of producers who shall patronize the association.

The voting rights of the members of the association shall be equal, and no member shall have more than one vote upon each matter submitted to a vote at a meeting of the members. The property rights and interests of each member in the association shall be unequal and shall be determined and fixed on a patronage basis, and the net proceeds from the business of the association shall be allocated to member patrons in the proportion that the patronage of each member bears to the total patronage of all the members of the association.

AMENDMENT: An amendment must first be approved by two-thirds of the directors and then adopted by a vote representing a majority of a quorum of the members attending a meeting of which notice of the proposed amendment shall have been given.

INDEMNIFICATION: Any person (and the heirs, executors and administrators of such person) made or threatened to be made a party to any action, suit or proceeding by reason of the fact that he is or was a Director or Officer of the Corporation shall be indemnified by the Corporation against any and all liability and the reasonable expenses, including attorney's fees and disbursements, incurred by him (or by his heirs, executors or administrators) in connection with the defense or settlement of such action, suit or proceeding, or in connection with any appearance therein, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Director or Officer is liable for negligence or misconduct in the performance of his duties. Such right of indemnification shall not be deemed exclusive of any other rights to which such Director or Officer (or such heirs, executors or administrators) may be entitled apart from this Article.



EXECUTION

These Articles of Incorporation are hereby executed by the incorporator on this _____ day of _____, 200__.

< **Incorp-first** > < **Incorp-last** >

STATE OF FLORIDA
COUNTY OF MIAMI-DADE

I HEREBY CERTIFY that on this day, before me, an officer duly authorized in the State aforesaid and in the County aforesaid to take acknowledgments, personally appeared < **Incorp-first** > < **Incorp-last** > who is either personally known to me or who produced a valid Florida Driver's license, executed the foregoing instrument as incorporator (or the agent of the incorporator) and acknowledged before me that he or she executed the same.

WITNESS my hand and official seal in the County and State last aforesaid this ____ day of _____, 200__.

NOTARY PUBLIC STATE OF FLORIDA
My Commission Expires:

REGISTERED AGENT'S ACCEPTANCE OF APPOINTMENT

I hereby accept my appointment as registered agent for < **CorpName** >, a Florida not for profit corporation.

< **RegAgent** >

Date



Sample Bylaws

ARTICLE I. MEMBERSHIP

Section 1. Qualifications. Any person, firm, partnership, corporation or association, including both landlord and tenant in share tenancies, who is a bona fide producer of agricultural products in the territory in which the association is engaged in business, and who agrees to be a patron of the association, signs a marketing agreement with the association, purchases one share of common stock, and meets such other conditions as may be prescribed by the board of directors, may become a member of the association. All applications for membership must be approved by the board of directors. Member status is effective as of the time the board approves the application for membership.

Section 2. Suspension or Termination. In the event the board of directors of the association shall find, following a hearing, that any of the common stock of this association has come into the hands of any person who is not eligible for membership, or that the holder thereof has ceased to be an eligible member, or that such holder has not marketed through the association the products covered by a marketing agreement with the association, or not otherwise patronized the association for a period of () year(s), or otherwise violated the articles of incorporation, bylaws, or other agreements made with the association, the association may suspend such holder's rights as a member and terminate the membership. When a membership is terminated, the association shall repurchase the member's share of common stock for par value. The holder shall return to the association the certificate evidencing the holder's share of stock. If such holder fails to deliver the certificate, the association may cancel such certificate on its books and records, and the certificate is then null and void. A suspended or terminated member shall have no rights or privileges on account of any stock held, nor vote or voice in the management or affairs of the association other than the right to participate in accordance with law in case of dissolution.

ARTICLE II. MEETINGS OF MEMBERS

Section 1. Annual Meeting. The annual meeting of the members of this association shall be held in the State of _____, during the month of _____, at such time and in such place as the board of directors shall designate.

Section 2. Special Meetings. Special meetings of the members of the association may be called at any time by order of the board of directors and shall be called upon written request of at least _____ members, or at least _____

percent (__ %) of the membership, whichever is a greater number.

Section 3. Notice of Meetings. Written notice of every regular and special meeting of members shall be prepared and mailed to the last known post office address of each member not less than (__) days before such meeting. Such notice shall state the nature of the business expected to be conducted and the time and place of the meeting. No business shall be transacted at any special meeting other than that referred to in the notice.

Section 4. Voting. Unless otherwise stated in the articles of incorporation, or these bylaws, or required by applicable law, all questions shall be decided by a vote of a majority of the members voting thereon. Each member shall be entitled to only one vote. Voting by mail shall not be permitted. Proxy voting shall be allowed. Each proxy shall be in writing, and no member shall vote more than one proxy. Cumulative voting is not permitted. If a membership is held by a partnership, corporation, or other legal entity, the member shall designate in writing the person who shall vote on behalf of the member. That designation shall remain in effect until written notice of a properly authorized change in the designated voter shall be received by the association.

Section 5. Quorum. _____ (__) members or percent (__ %) of the membership, whichever is a larger number, shall constitute a quorum at any properly called annual or special membership meeting.

ARTICLE III. DIRECTORS AND OFFICERS

Section 1. Number and Qualification of Directors. The association shall have a board of directors of _____ (__) members. Each director elected shall be a member of this association in good standing. No person shall be eligible to be a director if that person is in competition with, or is affiliated with any enterprise that is in competition with, the association. If a majority of the board of directors of the association finds at any time following a hearing that any director is so engaged or affiliated that person shall thereupon cease to be a director. No director after having served for _____ (__) consecutive full term(s) shall be eligible to succeed himself or herself, but after a lapse of _____ (__) year(s) shall again be eligible.

Section 2. Election of Directors. At the first annual meeting of the members of this association, directors shall be elected to succeed the incorporating directors. _____ director(s) shall be elected for one (1) year; _____ directors for two (2) years and _____ directors for three (3) years. At each annual meeting thereafter, new



directors shall be elected, for a term of three (3) years each, to succeed those directors whose terms are expiring. All directors shall be elected by secret ballot, and the nominee(s) receiving the greatest number of votes shall be elected.

Section 3. Election of Officers. The board of directors shall meet within seven (7) days after the first election and within seven (7) days after each annual election and shall elect by ballot a president, vice president, secretary, and treasurer, each of whom shall hold office until the election and qualification of a successor, unless earlier removed by death, resignation, or for cause. The president and vice president shall be members of the board of directors. The secretary and treasurer need not be directors or members of the association.

Section 4. Vacancies. Whenever a vacancy occurs in the board of directors, other than from the expiration of a term of office, the remaining directors shall appoint a member to fill the vacancy until the next regular meeting of the members. If the term of the vacating director does not expire at that regular member meeting, a special election shall be held to select a director to fill the year or years remaining in that term. If one or more officer positions become vacant, such offices shall be filled by the board of directors, through election by ballot, at either a regular or special meeting of the board.

Section 5. Regular Board Meetings. In addition to the meetings mentioned above, regular meetings of the board of directors shall be held monthly, or at such other times and at such places as the board may determine.

Section 6. Special Board Meetings. A special meeting of the board of directors shall be held whenever called by the president or by a majority of the directors. Only the business specified in the written notice shall be transacted at a special meeting. Each call for a special meeting shall be in writing, shall be signed by the person or persons calling the meeting, shall be addressed and delivered to the secretary, and shall state the time and place of such meeting.

Section 7. Notice of Board Meetings. Oral or written notice of each meeting of the board of directors shall be given each director by, or under the supervision of, the secretary of the association not less than ___ hours prior to the time of meeting. But such notice may be waived by all the directors, and their appearance at a meeting shall constitute a waiver of notice.

Section 8. Quorum. A majority of the board of directors shall constitute a quorum at any meeting of the board.

Section 9. Reimbursement and Compensation. The association shall reimburse directors for all reasonable expenses incurred in carrying out their duties and responsibilities. The compensation, if any, of the members of the board of directors shall be determined by the members of the association at any annual or special meeting of the association. No member of the board of directors, or member of the immediate family of any board member, shall occupy any position in the association on regular salary.

Section 10. Removal of Directors. Whenever any director shall fail to meet the qualifications as described in Section 1 of this Article, or fails to attend three (3) consecutive board meetings, either regular or special, without just cause and provided that notice of such meetings has been given in accordance with these bylaws, then it shall be the duty of the board to remove said director and to fill the vacancy in accordance with Section 4 of this Article. Members, through petition noting the charges and signed by at least ___(__) members or ___percent (__%) of the membership, whichever is a greater number, may request the removal of any member of the board. Such director shall be notified in writing of the charges and given an opportunity to be heard at a membership meeting of the association. Removal of a director shall require a vote of ___of members voting. Any vacancy resulting from such action shall be filled by nomination and vote of members at such meeting.

ARTICLE IV. DUTIES OF DIRECTORS

Section 1. Management of Business. The board of directors shall have general supervision and control of the business and the affairs of the association and shall make all rules and regulations not inconsistent with law, the articles of incorporation, or bylaws for the management of the business and the guidance of the members, officers, employees, and agents of the association.

Section 2. Employment of Manager. The board of directors shall have power to employ, define duties, fix compensation, and dismiss a manager with or without cause at any time. The board shall authorize the employment of such other employees, agents, and counsel as it from time to time deems necessary or advisable in the interest of the association. The manager shall have charge of the business of the association under the direction of the board of directors.

Section 3. Bonds and Insurance. The board of directors shall require the manager and all other officers, agents, and employees charged by the association with responsibility for the custody of any of its funds or

negotiable instruments to give adequate bonds. Such bonds, unless cash security is given, shall be furnished by a responsible bonding company and approved by the board of directors, and the cost thereof shall be paid by the association. The board of directors shall provide for the adequate insurance of the property of the association, or property which may be in the possession of the association, or stored by it, and not otherwise adequately insured, and, in addition, adequate insurance covering liability for accidents to all employees and the public.

Section 4. Accounting System and Audits.

The board of directors shall have installed an accounting system which shall be adequate to meet the requirements of the business and shall require proper records to be kept of all business transactions. At least once in each year the board of directors shall secure the services of a competent and disinterested public auditor or accountant, who shall make a careful audit of the books and accounts of the association and render a report in writing thereon, which report shall be submitted to the directors and the manager of the association and made available to the members of the association. This report shall include at least a balance sheet showing the true assets and liabilities of the association, and an operating statement for the fiscal period under review.

Section 5. Depository. The board of directors shall select one or more banks to act as depositories of the funds of the association and determine the manner of receiving, depositing, and disbursing the funds of the association and the form of checks and the person or persons by whom they shall be signed, with the power to change such banks and the person or persons signing such checks and the form thereof at will.

Section 6. Committees. The board may, at its discretion, appoint from its own membership an executive committee of ___ members, and determine their tenure of office and their powers and duties. The board may delegate to the executive committee all or any stated portion of the functions and powers of the board, subject to the general direction, approval, and control of the board. Copies of the minutes of any meeting of the executive committee shall be mailed to all directors within seven (7) days following such meeting. The board of directors may, at its discretion, appoint such other committees as it deems appropriate.

ARTICLE V. DUTIES OF OFFICERS

Section 1. Duties of President. The president shall (1) preside over all meetings of the association and of the board of directors; (2) call special meetings of the board of directors; (3) appoint such committees as the board of directors may deem advisable for the proper conduct

of the cooperative; and (4) perform all acts and duties usually performed by a presiding officer.

Section 2. Duties of Vice President. In the absence or disability of the president, the vice president shall perform the duties of the president, provided, however, that in case of death, resignation, or disability of the president, the board of directors may declare the office vacant and elect any eligible person president.

Section 3. Duties of Secretary. The secretary shall keep a complete record of all meetings of the association and of the board of directors and shall have general charge and supervision of the books and records of the association. The secretary shall sign papers pertaining to the association as authorized or directed by the board of directors. The secretary shall serve all notices required by law and by these bylaws and shall make a full report of all matters and business pertaining to the office to the members at the annual meeting. The secretary shall keep the corporate seal and all books of blank certificates, complete and countersign all certificates issued, and affix the corporate seal to all papers requiring a seal; shall keep complete stock ownership records; shall make all reports required by law; and shall perform such other duties as may be required by the association or the board of directors. Upon the election of a successor, the secretary shall turn over all books and other property belonging to the association.

Section 4. Duties of Treasurer. The treasurer shall be responsible for the keeping and disbursing of all monies of the association, and shall keep accurate books of accounts of all transactions of the association. The treasurer shall perform such duties with respect to the finances of the association as may be prescribed by the board of directors. At the expiration of his term of office, the treasurer shall promptly turn over to his successor all monies, property, books, records, and documents pertaining to his office or belonging to the association.

ARTICLE VI. OPERATION AT COST AND MEMBERS' CAPITAL

Section 1. Operation at Cost. The association shall at all times be operated on a cooperative service-at-cost basis for the mutual benefit of its member patrons.

Section 2. Margin Allocation. In order to induce patronage and to assure that this association will operate on a service-at-cost basis in all its transactions with its members, the association is obligated to account on a patronage basis to all member patrons on an annual basis for all amounts received from business conducted with members on a patronage basis, over and above the cost of providing such services, making reasonable

additions to reserves, and redeeming capital credits. Such allocation shall be on the basis on the volume (dollar value) of product marketed through (purchased from) the association. The association is hereby obligated to pay all such amounts to the patrons in cash or by credits to a capital account of each member patron.

Section 3. Per-Unit Retains. Each member also agrees to provide capital in such amounts as determined by the board of directors based on physical units of product marketed through the association. Such per-unit retains shall be allocated to the member's capital credit account.

Section 4. Dividends. No dividends shall be paid on any capital credits.

Section 5. Records and Documentation. The books and records of the association shall be set up and kept in such a manner that at the end of each fiscal year, the amount of capital, if any, so furnished by each member is clearly reflected and credited in an appropriate record to the capital account of each member. The association shall, within 8-1/2 months after the close of each fiscal year, notify each member of the capital so credited to the member's account. The notice shall be in the form of a written notice of allocation or per-unit retain certificate (as those terms are used in Subchapter T of the Internal Revenue Code) or other appropriate written document. The board shall have discretion to issue such notices and certificates in either "qualified" or "nonqualified" form as permitted by the Internal Revenue Code and other applicable law.

Section 6. Fiscal Year. The fiscal year of this association shall commence on the first day of _____ (month) and end on the last day of _____ (preceding month).

ARTICLE VII. EQUITY REDEMPTION

Section 1. Regular Redemption, Revolving Fund. If at any time the board of directors determines that the financial condition of the association will not be impaired thereby, capital credited to members' accounts may be redeemed in full or in part. Any such redemption of capital shall be made in order of priority according to the year in which the capital was furnished and credited, the capital first received by the association being the first redeemed.

Section 2. Discretionary Special Redemptions. Notwithstanding any other provision of these bylaws, the board, at its absolute discretion, shall have the power to retire any capital credited to members' accounts on such terms and conditions as may be agreed upon by the parties in any instance in which the interests of the association and its members are deemed to be furthered

thereby and funds are determined by the board to be available for such purposes.

ARTICLE VIII. CONSENT

Each person who hereafter applies for and is accepted to membership in this association, and each member of this association on the effective date of this bylaw who continues as a member after such date, shall, by such act alone, consent that the amount of any distributions with respect to his patronage occurring after the effective date of this bylaw, which are made in qualified written notices of allocation or qualified per-unit retain certificates (as defined in 26 U.S.C. 1388), and which are received by him from the cooperative, will be taken into account by him at their stated dollar amounts in the manner provided in 26 U.S. C. 1385(a) in the taxable year in which such written notices of allocation and per-unit retain certificates are received by him. Written notification of the adoption of this Article, a statement of its significance, and a copy of the provision shall be given separately to each member and prospective member before membership in the association.

ARTICLE IX. NONMEMBER BUSINESS

This association may conduct business with nonmembers on either a patronage or non-patronage basis. However, this association shall not market the products of nonmembers in an amount the value of which exceeds the value of the products marketed for members. It shall not purchase supplies and equipment for nonmembers in an amount the value of which exceeds the value of the supplies and equipment purchased for members. It shall not purchase supplies and equipment for persons who are neither members nor producers of agricultural products in an amount the value of which exceeds fifteen percent (15%) of all its purchases. Business done for the United States or any of its agencies shall be disregarded in determining the limitations imposed by this section.

ARTICLE X. NON-PATRONAGE INCOME

The non-patronage income of the association shall be its gross receipts derived from all sources which under law do not qualify as patronage income, less all expenses properly attributable to the production of such non-patronage sourced income and all income taxes payable on such receipts by the association. Non-patronage income shall be used in behalf of the association and its members in accordance with such lawful purposes, including assignment to an unallocated reserve account and allocation in whole or in part to members, as may be determined by the board of directors.

ARTICLE XI. LOSSES

Section 1. Patronage Losses. In the event the association suffers a loss during any year on business conducted with or for patrons, such loss may be apportioned among the patrons during the year of loss so that such loss will, to the extent practicable, be borne by the patrons of the loss year on an equitable basis. The board shall have full authority to prescribe the basis on which capital furnished by patrons may be reduced or such loss otherwise equitably apportioned among the patrons. In the event of a patronage loss in one or more departments or divisions of the operation of this association, but not so much as to cause an overall loss for the fiscal year, such loss or losses may be prorated against each of the remaining profitable departments on the basis of their respective percentage of the net margins during such fiscal year.

Section 2. Non-patronage Losses. If in any fiscal year the association shall incur a loss other than on patronage operations, such loss may be charged against any reserve accumulated from non-patronage earnings in prior years.

Section 3. General Provisions. The board shall have no authority to make assessments against members. This section shall not be construed to deprive the association of the right to carry backward or forward losses from any source whatsoever in accordance with the Internal Revenue Code or state taxing statutes.

ARTICLE XII. DISSOLUTION AND PROPERTY INTEREST OF MEMBERS

Upon dissolution, after all debts and liabilities of the association shall have been paid, all shares of preferred stock and common stock redeemed, and all capital furnished through patronage shall have been retired without priority on a pro rata basis, the remaining property and assets of the association shall be distributed among the members and former members in the proportion which the aggregate patronage of each member bears to the total patronage of all such members insofar as practicable, unless otherwise provided by law.

ARTICLE XIII. INDEMNIFICATION

The association shall indemnify its officers, directors, employees, and agents to the fullest extent possible under the provisions of the (applicable State law), as it may be amended from time to time. The association may purchase liability insurance coverage for any person serving as an officer, director, employee or agent to the extent permitted by applicable State law.

ARTICLE XIV. AMENDMENTS

If notice of the character of the amendment proposed has been given in the notice of meeting, these bylaws may be altered or amended at any regular or special meeting of the members by the affirmative vote of ____ (__) of the members present or voting by proxy.

Again, these are only examples of the provisions common to most cooperative bylaws. Virtually any other rule can be included that is permissible under law. It is up to the leaders and members of a cooperative to craft a set of bylaws that guides the association to serving members' needs.



Sample Membership Application and Marketing Contract

THIS AGREEMENT between the _____, Inc., hereinafter referred to as the Association, and the undersigned Producer, witnesseth:

The Producer

1. Applies for membership in the Association, and if accepted as a member, agrees to be bound by its articles of incorporation, bylaws, rules, and regulations as now or hereafter adopted.
2. Appoints the Association as agent to sell all the _____ of marketable quality produced on any farm in control of or operated by the Producer, except that required for consumption on the farm.
3. Will deliver such products at such times and to such places in unadulterated form under such conditions as may be prescribed by proper authorities.
4. Will notify the Association of any lien on the products delivered hereunder, and authorizes the Association to pay the holder of said lien from the net proceeds derived from the sale of such products before any payment is made to the Producer hereunder.
5. Will provide capital in such amounts and in such a manner as may be provided in the bylaws.

The Association

1. Accepts the application of Producer for membership in the Association.
2. Agrees to act as agent for the marketing of products of Producer as herein provided.
3. Will dispose of Producer's products in a manner deemed to be most advantageous for its members.
4. Will account to the Producer in accordance with this contract for all amounts received from the sale of products as herein provided.
5. Will reflect in an appropriate capital account the capital received from each patron.

The Producer and the Association mutually agree that the Association shall have the power:

1. To establish various plans for making returns to the Producer.
2. To blend or pool proceeds from sales of products of the Producer with the proceeds of the sales of products of other Producers, and to account to or settle with Producer therefore in accordance with established plans.
3. To process or cause to be processed products of the Producer and dispose of the same in the manner deemed most advantageous to its members.
4. To collect from buyers of products the purchase price therefore and to remit the same to Producer under a plan authorized by this contract after making uniform deductions deemed adequate for all necessary, expenses and for capital purposes.

In case of a breach of this contract by the Producer, the actual damage to the Association and other producers cannot be determined. Therefore, Producer agrees to pay to the Association as liquidated damages for such breach, the sum of _____dollars (_____) per _____on all products that would have been delivered had the Producer not breached the said contract.

And the Association shall further be entitled to equitable relief by injunction or otherwise to prevent any such breach or threatened breach thereof and the payment of all costs of litigation in connection with the exercise of any or all of the remedies available to the Association.

This contract shall remain in effect for an initial term of (____) years from the date hereof. Following the initial term, the contract may be cancelled by notice given in writing by either party to the other within ten (10) days after any yearly anniversary date, and such cancellation shall become effective on the last day of the second calendar month following the month during which such notice is given.

Source: Rapp, Galen and Gerald Ely. *How to Start a Cooperative*, University of Wisconsin Cooperative Center, Cooperative Information Report 7, revised September 1996.



Resources

Agricultural Marketing Resource Center

www.agmrc.org

1111 NSRIC, Iowa State University, Ames, IA 50011-3310

(866) 277-5567 toll free

The Agricultural Marketing Resource Center is an electronic, national resource for producers interested in value-added agriculture.

National Council of Farmer Cooperatives

www.ncfc.org

50 F Street, NW, Suite 900, Washington, DC 20001

(202) 626-8700

NCFC promotes growth of cooperatives through legislative and regulatory activities.

USDA, Rural Business Cooperative Service

www.rurdev.usda.gov/rbs

U.S. Department of Agriculture, Washington, DC 20250

(202) 690-0357

Part of USDA's Rural Economic and Community Development mission area, Cooperative Service provides research, management and educational assistance to cooperatives to strengthen the economic position of rural residents. It offers a publications catalog and publishes a quarterly magazine.

Missouri Alternatives Center, University of Missouri-Columbia

Provides a list of publications on cooperative development. Go to <http://agebb.missouri.edu/mac/links> and look under "Cooperatives and cooperation".

Small Business Development Center, University of West Florida

401 E. Chase Street, Suite 100, Pensacola, FL 32502

(850) 473-7830

E-mail: sbdc@uwf.edu

Provides free management consulting for business owners in Escambia and Santa Rosa

Online consulting provided by the Florida SBDC Network <http://www.floridasbdc.com/home/eRFC/onlineconsulting.asp>



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