

Cooperatives form strong bonds
to serve producers.

BUILDING TOGETHER

By Annette Bertelsen

The philosophy of “one plus one equals three” can be seen far and wide in strategic partnerships that enable farmers, cooperatives and their partners to build more by working together. While there’s no magic formula, experts say good communication, trust and shared values are keys to successful long-term partnerships.

“Dynamics are different when cooperatives partner with other cooperatives, versus cooperatives working with non-cooperatives,” says Bruce Reynolds, economist, USDA Cooperative Programs. “Private firms have their own >

Fessenden Cooperative partnered with CHS to build a grain terminal in Hamberg, N.D. Among the decision makers were, from left, Darrel Heins, a farmer and former Fessenden Cooperative board member; Mark Pederson, Fessenden Cooperative location manager; and Mark Hovland, Fessenden Cooperative general manager.

Watch a video on partnership at chsinc.com/c and learn more at valueofthecoop.com.

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> agendas. Their overall direction and guidance will be different.”

When member-controlled cooperatives work together, they tend to work toward services that are meaningful and valuable by making farmers' agricultural enterprises worth more, says Reynolds. “These partnerships are also more likely to explore new types of services that will give farmers more power in the future.”

Cooperative leaders and their boards don't need to own 100 percent of something to be part of it, says Mike Feeney, business development director, CHS Aligned Solutions. “Once they realize that, it opens their eyes to ways they can get more bang for their buck — whether

it's more buying power, market access, expertise or speed.”

If a cooperative goes it alone on a \$15 to \$20 million river terminal, for example, it may not have the logistical expertise or other capabilities needed to accelerate its success, says Feeney. “In today's farm economy, there's no room for an underperforming business unit. Plus, if the cooperative doesn't take on a partner, it may have to pass on a later opportunity due to lack of capital.”

Co-ops Helping Co-ops

Forging a partnership to build a high-speed grain shuttle loading facility in Canton, Kan., was a two-year process for MKC,

Moundridge, Kan. It started with a feasibility study and considered nearly a dozen partners before the board approved forming a limited liability company with CHS called Producer Ag, LLC.

“What better partner than a company where you have ownership?”

— Keith Becker, grain producer

By investing in a high-speed terminal elevator capable of loading 100-car shuttle trains, MKC is able to access competitive freight rates, says Keith Becker, an MKC board member who farms near Galva, Kan. “CHS and its access to domestic and export markets provides

additional market intelligence that is beneficial to MKC and our growers. Partnering with another cooperative allows us to participate in the earnings stream deeper into the food chain, giving

us the opportunity to pass along more earnings to our members.

“Given that we are both cooperatives, we have similar values, including honesty and integrity. We communicate well with each other because we think the same,” says Becker. “MKC has a bigger management role than



MKC board member Keith Becker farms near Galva, Kan.

we might have with a different partner, because CHS trusts us to run the operation.”

Building together has benefitted each partner, says Tim Potter, CHS Grain Marketing senior merchandiser. “The MKC grain business has evolved from being a truck facility to being a big player with more volume, more speed, more market access and more credibility,” he says. “CHS has gained a good origination source for corn, soybeans, milo and wheat in a competitive area.”

The partnership will help sustain MKC for the next generations, says Becker, “and the economic development has been good for our rural community.”

Given the success of the Canton operation, the partners recently announced plans to build a second grain terminal with about 7 million bushels of storage in Milan, Kan. As in Canton, grain marketing will be handled by Team Marketing Alliance (TMA), LLC, which is owned by MKC, three other local cooperatives and Producer Ag, LLC.

“TMA has incentive to work with CHS Grain Marketing because it can earn patronage and dividends,” says Potter. “As a partner, we put a high priority on helping TMA succeed. We give the TMA team full access to daily information that helps them make

prudent business decisions. We consider them one of us.”

Growing Together

When General Manager Mark Hovland brought a proposal for building a grain terminal in Hamberg, N.D., to the Fessenden Cooperative Association board of directors, he says their initial reaction was, “You want to do *what?*” After all, the company already owned a large grain facility only 15 miles away in Fessenden.

“It takes work to structure partnerships to be sure both parties achieve what they want to achieve.”

— Dan Mack, CHS

The idea proved to be a good one. Building a shuttle loader on the BNSF Railway diversified the cooperative's rail position and gave members direct routes for export to the Pacific Northwest and many other destinations throughout the U.S. The cooperative gained new customers, and both its facilities have met projections.

To help finance the project and manage its balance sheet,

the cooperative partnered with CHS to construct the facility, which is leased to and operated by Fessenden Cooperative. “We needed a partner that was globally connected and had logistical expertise and strength,” says Hovland, “but mutual trust was equally important.”

Dan Mack, vice president of CHS Transportation and Terminal Operations, serves on the Hamberg LLC board of directors. “Fessenden Cooperative has been a loyal long-term cooperative owner of CHS for many years. Taking this opportunity to grow together has proven to be beneficial,” says Mack. “CHS leveraged its railcar and shuttle train capacity with BNSF to benefit Fessenden Cooperative and its members, while gaining a strong grain origination source for CHS.”

Before long, the grain partnership propelled a fertilizer partnership. “As often happens when we align with another cooperative, our understanding of each other's needs increases over time,” says Mack. An LLC was formed to build and operate

a fertilizer warehouse with product-blending capabilities at the site of the jointly owned grain terminal.

“Building something too small or too slow would not have been right for our patrons,” says Hovland. Working together, the partners constructed a facility with 28,000 tons of fertilizer storage capacity, giving the co-op's agronomy customers more fertilizer options and better >

Forging Partnerships

“Partnerships can play an important role in seizing farming opportunities and maximizing return on assets and equity,” says Moe Russell, founder of Russell Consulting Group, Panora, Iowa. He has helped create successful partnerships within farm families, as well as between independent farmers, such as a group of Iowans who formed FUN (Farmers United Network) to share equipment, labor, information and more.

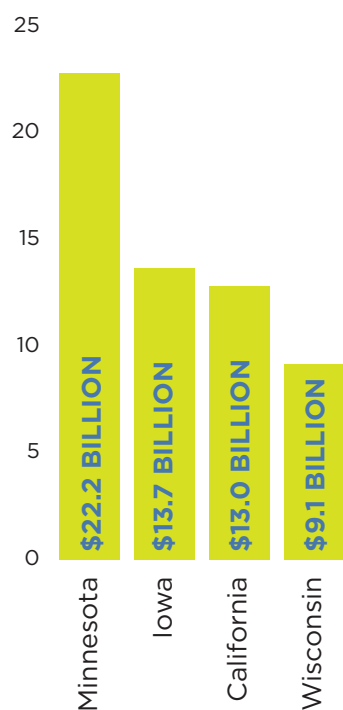
“Good communication is crucial, and so is putting as many things in writing as you can, from standard operating protocols to the terms of your relationship,” Russell says.

“In the case of a farm transition plan, the second generation might want to form a limited liability company (LLC) so they have an entity with liability protection.”

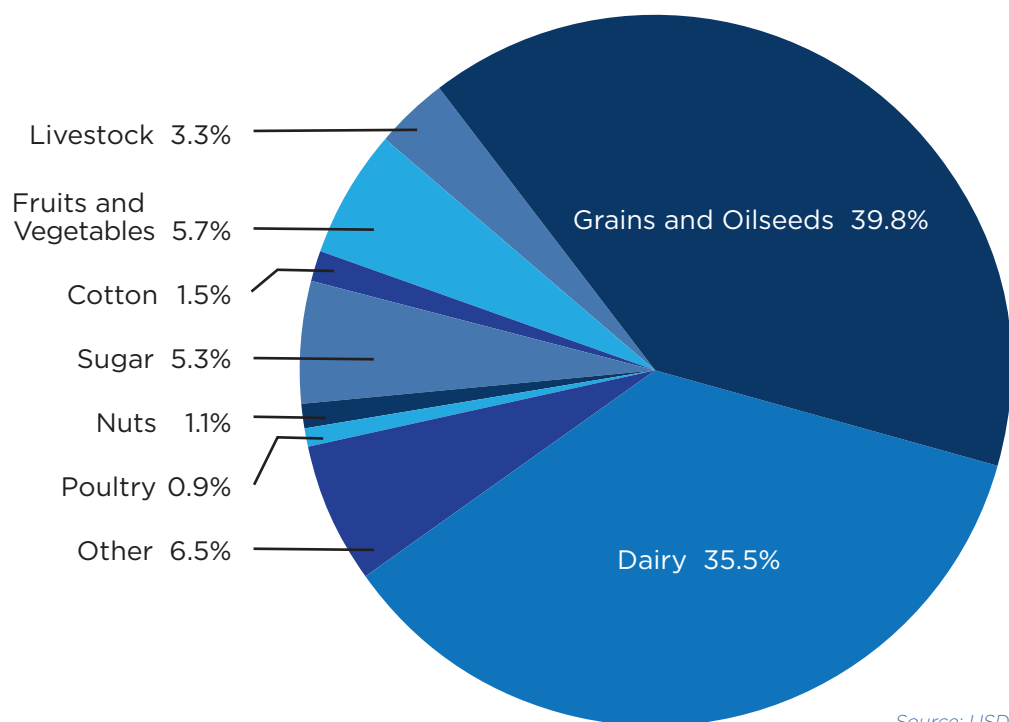
Planning ahead is vital, says Russell. “Talk about what future opportunities you see, so you're ready to capitalize on those opportunities when they present themselves. Stay focused and maintain a positive attitude.”

Russell Consulting, a CHS business, delivers marketing and financial advice to crop and livestock producers.

Total Farm Commodities Marketing, Leading States



Commodities Marketed by Co-ops, 2014



Source: USDA

U.S. co-ops marketed \$58.8 billion in grains and oilseeds in 2014, making it the largest commodity sector for ag co-ops.

Source: USDA

“Cooperatives benefit most from joint ventures when they have clear, realistic objectives; an accurate understanding of risks; and an exit strategy.”

— Bruce Reynolds,
USDA

> service, while enabling CHS to expand its wholesale fertilizer business in a key region.

“Fessenden Cooperative members benefit from freight savings and our ability to buy fertilizer when the time is right because we have more storage,” says Hovland. “Now growers can load their semis with fertilizer in four minutes versus 20 minutes. Speed is especially important to the next generation of farmers. They want to get in and get out quickly so they can get on with the next task.”

Hovland says its co-op-minded patrons appreciate the economic returns they get from doing business

When Kinder-Morgan announced its Cochin pipeline would stop bringing propane to the northern-tier states, the cooperative system sprang into action. Partners in three states completed the \$24 million, five-terminal project in two years.

“We strategically placed new and expanded rail terminals to help meet our owners’ needs,” says Ron Batey, director of risk and asset development, CHS Propane. One prime location was Hixton, Wis., where CHS built a terminal with 360,000 gallons of storage just off Interstate 94 on property owned by Federation Cooperative, Black River Falls, Wis. Federation Cooperative employees operate the facility, and CHS handles propane sales to cooperatives and independent businesses.

Completed in the fall of 2014, Hixton quickly catapulted to being one of the top five CHS terminal locations, thanks to a combination of being in the right spot and having the right partners, says Batey.

“We needed to sell the entire state of Wisconsin on this project to create a terminal of this size. The Federation Cooperative board and management team

Solving a Problem

was fantastic with everything from generating local support to working with utilities,” he says. “Our goal was to collaborate to bring affordable, reliable propane into Wisconsin to backfill the supply needed to dry crops and heat rural America. And it’s working.”

Co-op owners have benefitted from ample propane supply, freight savings and risk management options, says Chad Fankhauser, CHS Propane terminal operator at Federation

Cooperative. “Wisconsin propane marketers and farmers have learned what it’s like to have a propane shortage at crop-drying time. Having a terminal strategically placed means peace of mind,” he says.

He also says it’s important to have “good people” behind the scenes, working together toward a common goal. “Federation Cooperative is safety-oriented and committed to helping the community, and CHS feels the same way,” Fankhauser says.



Chad Fankhauser, CHS Propane terminal operator at Federation Cooperative, Hixton, Wis.

“We partnered with another cooperative that has the same goals — to protect our patrons, to provide a service for the community and to do it in a competitive way. Both Agland Co-op and CHS Farmers Elevator lease employees to our agronomy LLC. Having good communication between our boards was helpful in encouraging employees to work together as a team.”

— Duane Nasner, board president,
Agland Co-op, Wolf Point, Mont.

with cooperatives. “We pride ourselves on paying patronage and being a cooperative. Patronage definitely played a part in our decision to partner with CHS on these projects, just like it factors in on our decisions to buy fertilizer products or financial, insurance, hedging or grain marketing services from CHS,” he says.

As partners, CHS and Fessenden Cooperative can

also learn from each other, says Justin Friesz, CHS grain merchandiser. “We give the Fessenden Cooperative team market intelligence that helps keep producers ahead of volatile market conditions,” he says. “Meanwhile, we ask them about planting intentions, how crops are doing and anything else that will give us a better supply-and-demand picture. It’s a transparent conversation that benefits everyone.” ■