



## *Walton Bean Growers' Cooperative*

A Case Study

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## Introduction

This case study is one of four in a series that are focused on so-called “new generation cooperatives,” or NGCs. While the first recognized NGC dates back to 1972, most were formed in the 1990s, and they continue to be formed today.

NGCs differ from traditional cooperatives in several ways. First, farmers invest significant dollars up front by purchasing shares in the business.

Second, each purchased share allows and obligates a producer to deliver a set quantity of raw product to the co-op.

Third, there are a limited number of shares, and in that sense the co-op is closed or limited to a set number of producers. This is intended to match incoming raw products to the capacity of the plant and the demand for the end product.

Finally, the ownership shares can be traded among farmers, and the price of those shares may rise or fall, reflecting how much the farmers expect to benefit from their membership in the future.

## Industry Profile

The U.S. dry edible bean industry has experienced some challenges in recent years due to over supply from the 1999 season’s strong yields, low prices, and slow exports. As a result, total U.S. bean production has also declined. In 2000, dry edible bean production totaled 25.6 million

## Top Dry Bean Producing States (1997-1999)

N. Dakota	27%
Michigan	18%
Nebraska	12%
Colorado	9%
Minnesota	8%
Other States	26%

Source: ERS/USDA

cwt, down 23 percent from 1999.

North Dakota is the leader in dry bean production, producing 27 percent of national output. Other top producing states include Michigan, Nebraska, Colorado, and California.

Although beginning to show some strength, aggregate dry bean prices remain low at \$15.30 per cwt in October 2000, an 11 percent decline from 1999. Average grower prices for dry beans have been very low for most of 2000, with retail prices also falling, declining 2 percent from 1999. North Dakota has been particularly hard hit, with their growers receiving the lowest average price for beans (\$12.03 per cwt). Dry bean growers are subject to a high degree of price risk, with volatile prices typically ranging from \$15 to \$30 per cwt.

## Walton Bean Growers Cooperative

Walton Bean Growers Cooperative (WBGC) is a new generation cooperative specializing in the processing and marketing of dry edible beans (light red and dark red kidney, pinto, black, and navy).

This study is based primarily on a site visit and interviews with the WBGC management and members in the spring of 2001.

With its base of operations in in Englevale, North Dakota (population 100), today the cooperative is owned by 163 farmers and governed by a nine-member board of directors. It operates as the 5<sup>th</sup> largest bean processor in the U.S., processing approximately 1.2 million cwt of dry edible beans annually.

WBGC also owns a processing and storage facility in Wiggins, Colorado, which processes commercial and organic dry edible beans and organic corn. In addition, the cooperative owns three subsidiaries: Pro Bean LLC, ProTect Insurance LLC, and United Bean Growers LLC.

The co-op was founded in March 1994 when a group of bean growers united to purchase



*Most WBGC beans still go into other companies' products.*

the bean facility from Ed and Kathy Walton. Bean farmers themselves, the Waltons had started the company almost thirty years earlier, but their children did not want to continue the business.

WBGC was formed to achieve two goals. The first goal was to bring the bean plant to full production capacity and provide a reliable market for their growers' beans. The second goal was to develop value-added bean-based products, and to pass the associated profits back to the farmer-investors.

The co-op's first equity drive began in April 1994 and ran until May 31, 1994. The original offering was \$3.6 million, consisting of 600,000 shares of equity stock at \$6.00 each. To join the co-op, the minimum purchase was 1,000 shares (\$6,000 investment), which entitled and obligated growers to deliver 100 pounds of beans per share. The offering was limited to producers of dry edible beans residing within the states of North Dakota, South Dakota and Minnesota with a net worth of \$60,000 and a debt-to-equity ratio of one-to-one or better.

The equity drive raised \$1.9 million from 163 producers. In addition to equity raised from growers, the Walton family also purchased stock valued at \$800,000. Mike Janke, WBGC's Grower Relations Manager, described the equity drive as "the challenging part." He notes, "We wanted to raise more. In hindsight, we were undercapitalized."

### **Value-Added Products**

In 1995, the cooperative introduced its first line of value-added products. Three burrito varieties were introduced, bean and cheese, chicken and bean, and beef and bean.

The co-op also produced a beef and cheese soft taco, under a special commodity beef agreement. Through a one-year contract with the state of Minnesota's public school food service program, WBGC successfully sold the soft tacos during the 1998-99 school year.

### **Expansion & Second Equity Drive**

In 1996, the cooperative purchased a second processing facility in Wiggins, Colorado. This facility was purchased without raising additional capital. The Wiggins facility processes commercial and organic dry edible beans and



*The Englevale plant*

organic corn. This facility also receives and stores confectionary sunflowers for an international commodity processing and marketing firm.

In March 1997 a second equity drive was organized to raise \$1.4 million in additional capital. The stock was sold at \$3.00 per share—50% of the original share price. (More recently shares were trading at \$3.15.)

The additional capital raised was used for upgrading the Englevale facility. During the second equity drive an outside consultant was hired to help advise the co-op and continued to provide business advice for the next three years. According to Janke, the consultant's services were "very beneficial."

### **Joint Ventures & Acquisitions**

Most recently, WBGC has formed a partnership with another locally owned bean processing facility, the Wallhala Bean Company. In February 2000, WBGC and Wallhala formed a limited liability company, United Bean Growers, to serve as a marketing consortium of dry edible beans.

The goal of this partnership is to develop cooperative efforts with other bean processing companies throughout the U.S. to jointly market products. Products of the United Bean Growers LLC will be sold under the Beans USA brand name.

Equity in United Bean Growers is based on production capacity, with WBGC owning

80 percent and Wallhala owning 20 percent.

In 2000, WBGC's wholly-owned subsidiary, Pro Bean LLC successfully negotiated an equity position in the e-business start-up company, Grainline.com. In exchange for management services, WBGC owns 11.25% in Grainline.com. In September 2000, Grainline merged with Stocksheets, Inc., a global Internet company that provides business-to-business exchange for the agricultural industry, giving livestock and grain producers access to exclusive data, information, and benefits to the livestock and commodities industry.

### **Current Challenges**

While WBGC has experienced recent success through partnerships and alliances, the co-op still faces some challenges. These include shifting production in Clarkville, difficulties marketing value-added products, the cyclical nature of the canning business, and industry consolidation.

In April 2001, the co-op decided to put its Clarkville, Minnesota facility up for sale. This decision was based on farming changes in the area, which had transitioned into soybean production. Eighty percent of production from this area was being shipped out for processing. The co-op decided to sell the facility to save on the heavy distribution costs.

In addition, the co-op has experienced some difficulties marketing its value-added products. Today, according to



*WBGC Co-op Members*

Janke, "very little of the cooperative's production goes to these products." The biggest challenge in marketing value-added products is that "it takes a lot of working capital to get into the food business." The cooperative hired two individuals to do the marketing and product development. The co-op only sold a small amount of product every month and found that there was "so much competition for an unknown."

WBGC still hopes to continue producing value-added products in the future and is working to form relationships with established food businesses to introduce new food products. However, the co-op's largest hindrance is capital.

To overcome this, Janke explained that WBGC hopes to "join forces with an existing company to draw on their distribution system, recognizing that "it's not cost effective to do it alone." Ideally, they would like to work with another food processor to market new bean recipes and food products. Until then, the co-op will focus on cleaning and bagging raw beans, with 80 percent of production going to canneries.

Another challenges facing WBGC is the cyclical nature of

the canning business. Once fresh produce becomes available, it is tougher to get shipments to the canners. To deal with this issue, the co-op is trying to build relationships with canners who are willing to give attention to small town processors.

Another challenge concerns consolidation within the dry edible bean industry. Traditionally, there were several stages in the dry edible bean industry. The grower grew and harvested the raw product. The elevator was responsible for handling and storage of beans upon grower delivery as bulk packaging. The processor purchased the beans from the elevator and refined them into restaurant and shelf-ready products. And the retailer was the responsible for sales to the final customer.

Today, many large agricultural firms are moving to fully integrate their supply chains to create greater efficiencies. This creates increased competition for independent processors like WBGC.

### **Impact on Small- and Medium-Sized Growers**

By the spring of 2001, the co-op had 413,949 outstanding shares of stock and 163 members. Approximately 70 percent of the WBGC members are classified as small or medium-sized growers, according to Janke. Investments ranged from 1,000 to 95,899 shares. While the majority of small-sized growers chose to invest the minimum

requirement of \$6,000, two small growers did invest above the minimum.

Overall, WBGC seems to benefit small- and medium-sized growers equally if not greater than larger growers. The largest benefits come in terms of reduced transportation costs. Quite a few of the co-op's growers commit 100 percent of their production. "Most are very loyal and want to see the co-op develop."

Janke notes that smaller growers are most faithful, but a lot also depends upon the grower's location and associated transportation costs. Also, small farmers often appreciate the co-op more, because they're too small to do their own marketing, and usually do not have access to their own storage facilities, like some of the large growers.

For a small grower like Dr. Bengi Dick, participation in the co-op is a new experience. Initially, when the co-op was formed, Dick was not interested in joining because he felt "there were no real benefits beyond dividends."

However, he later changed his mind, partly because his brother had been a member from the beginning and was pretty satisfied with the experience. In addition, Dick felt that a change in the co-op's management team gave him more confidence in the co-op.

Of the 920 acres Dick farms, 20 percent is in dry edible bean production, and he delivers all of his beans to WBGC. His goal in joining the cooperative

WBGC's members' farms range from 1,800 to 12,000 acres, and fall into the following categories as defined by a WBGC representative:

Classification	Total Acres Farmed	% of Member-ship
Small	Less than 3,000	14%
Medium	3,000 to 6,000	57%
Large	More than 6,000	29%

was to have first access to production contracts.

Dick owns 1,000 shares, which he purchased for \$3,500. He purchased the shares through his personal savings and did not participate in any loan programs. Since the price of the shares has fallen since the formation of the co-op, it was not a big risk to invest, he explained. If the minimum investment requirement were \$8,000 or more, he would not have been comfortable about investing.

Beyond the opportunity to earn dividends, Dick believes participating in the co-op helps reduce his transportation costs by having a buyer nearby. He feels he has benefited just as much as the larger growers.

Dick explained that participating in the co-op does not really involve any additional challenges, aside from having "slightly less cash for operating." Offering advice to someone thinking of joining a new generation co-op, he said, "If [investing the money] will change your lifestyle, you probably shouldn't invest. Do it with money you can afford to lose. It's like participating in the stock market."

For Dan Bergemann, another small grower, the co-op has offered mixed returns.

Bergemann currently farms 1,100 acres. Of this total, 400 acres are devoted to dry beans, all of which are supplied to WBGC. At the time he joined the co-op, Bergemann was farming 200 acres of dry beans and has since doubled his dry bean production.

Bergemann was a charter member in the co-op, joining in 1994. He decided to join because "it looked like a good opportunity, and he was attracted to the idea of value-added products. He believed that "you can only take it so far as an individual," and he saw the co-op as an opportunity to gain "a bigger piece of the pie."

Bergemann purchased 2,000 shares in the co-op at \$6.00 per share for a total investment of \$12,000. He raised the funds for this investment through his personal savings and like Dick, did not tap into any loan programs for small farmers.

At the time of purchase, Bergemann says the minimum investment requirement "did not seem like a big investment. Now it seems bigger than he [originally] thought." In terms of return on investment, he notes that the co-op offers the same selling price for beans as any place else, but when the co-op is profitable, it goes back to

the members as patronage refunds (dividends).

Since its formation, co-op members have received dividend payments for two fiscal years, 1997 and 1998. During fiscal year 1997, dividends paid totaled \$0.41 per share, while in 1998, dividends paid totaled \$0.50 per share. In 2000, members received no returns. Janke notes, "We were hoping to get a third year payout under our belt. Shipping schedules wouldn't permit it."

One of the biggest benefits for Bergemann is the proximity of the plant to his farm— only 15 miles away. However, he feels that he has not "seen the full run of benefits" and noted that he was disappointed the value-added products are not going as well as he had hoped. He was really excited about the co-op's line of frozen burritos and hopes the co-op will continue marketing value added products in the future.

Despite in the challenges the co-op faces, Bergemann still believes in supporting the co-op. He noted that at times the co-op doesn't offer the best contracts. During these times, some members are swayed to sell outside the co-op. But Bergemann believes that these members ultimately "hurt themselves and fellow members by going outside the co-op."

Overall, Bergemann is satisfied with his participation in the co-op. He notes however, that the "value-added idea got started too late." He remembers farmers talking about the concept for several years, as far back as his father's generation.

## Lessons Learned

One of WBGC's earliest challenges involved management. When the cooperative was formed, the previous owner continued to serve as the general manager.

This created some tensions because members and management "didn't always see eye-to-eye." A key point Janke recommends for those forming a new generation cooperative from an existing business is to "seek outside management."

Eventually, the co-op did go through a restructuring of management. However, Janke notes, "It wasn't an easy time."

The Waltons are still the co-op's largest shareholders, owning 95,899 shares or 23 percent equity. However, they do not participate in managing the co-op or serve on the board of directors. This change in management change was key to WBGC's long-term survival.

Today, the co-op operates with a forward thinking team, focusing on mutually beneficial relationships. WBGC's goal for the future is to "strategically leverage ourselves without working capital," according to Janke. He believes that developing strategic alliances will be key to WBGC's future success. In the future, the co-op would also like to add another processing line and further expand its capacity.

## JANUARY 2003 UPDATE

We regret to report that in October 2002 WBGC members voted to approve their board's

decision to sell all of the cooperative's assets and dissolve the business.

In their last fiscal year, WBGC registered a \$2 million loss. By the summer of 2002, their lender, CoBank, had withdrawn its financing. The board voted to sell the Englevale facility and other assets to a private competitor.

Since most of the money from asset liquidation went to cover their debt, it was expected that members would lose their entire equity investment, estimated at \$20,000 per member on average. As WBGC members made clear, investing in new generation co-ops involves risk and hopefully no members invested more than they could afford to lose.

From every failure comes lessons, and to that end the former board chairman of WBGC was asked to explain why the co-op failed.

Barry Vculek explained that the board should have required the management to stick closer to the "core business": cleaning and bagging beans. Members had provided sufficient capital to achieve that mission. The forays into value-added products (burritos, tacos) in retrospect were not wise decisions, because a small co-op simply "cannot compete against the ConAgras and ADMs, unless you totally avoid brick and mortar investment and find a lucrative niche," which they did not do.

Adding to the problems were poor operational decisions to grade members' beans to liberally, which left them with

poor quality beans for which they had no market.

Vculek added that he was glad to say that all members were eventually paid for their beans held in WBGC storage.

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