


# Best Practices

Assessing the Needs of Texas Cooperatives




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## Texas Cooperatives

- 230 Ag Supply, Marketing, and Service cooperatives in Texas
- Third largest number of cooperatives in the US
- What do they need?

2002 Rural Business Cooperative Service Census



## Why are we here?

- Establish a **financial profile** of successful cooperatives
- Discuss **operating philosophies** that can affect performance
- Looking ahead to **future** success



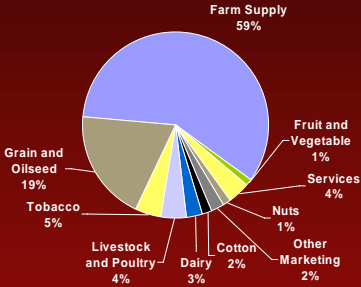
*We need your input!*

## Texas Cooperatives

- **109,930** memberships representing businesses from
  - Agricultural Supply
  - Marketing
  - Services



## Distribution of memberships by type of cooperative.



2002 Rural Business Cooperative Service Census

## Our Survey

- 230 cooperatives surveyed
  - Financial and operational information sought
  - More than **100** different detailed questions
  - Financial and utility cooperatives not included at this time
- Manager and Board Chairmen responded
- 67 responses
  - 43 manager responses, 24 chairman responses
  - Delays due to weather?


# Financial Performance

Compare and Improve

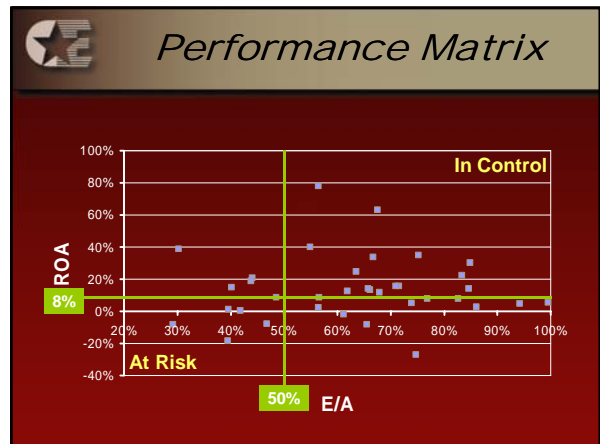


- ## How do you rank business performance?
- Pay attention to both short term and long term
  - Use industry acceptable benchmarks
  - Study for multiple years
  - For this case, we only have a one year snapshot

- ## Two Measures of Performance
- Long Term:
 
$$\frac{\text{Total Stockholder \& Patron Equity}}{\text{Total Assets}} = \text{E/A}$$
  - Short Term:
 
$$\frac{\text{Net Income}}{\text{Total Assets}} = \text{ROA}$$

- ## Equity to Assets
- Equity / Assets *measures control over your future*
- 
- CoBank prefers E/A > 50%

- ## Return on Assets
- Net Income / Assets *measures short term performance*
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- CoBank prefers ROA > 8% (or ROA > 5% in drought years)



### Comparing In-Control and At-Risk Cooperatives

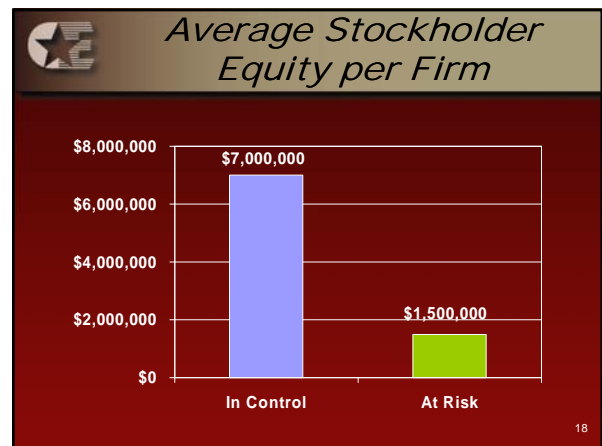
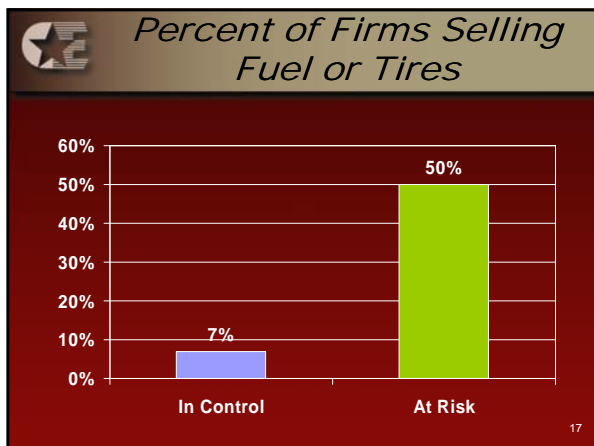
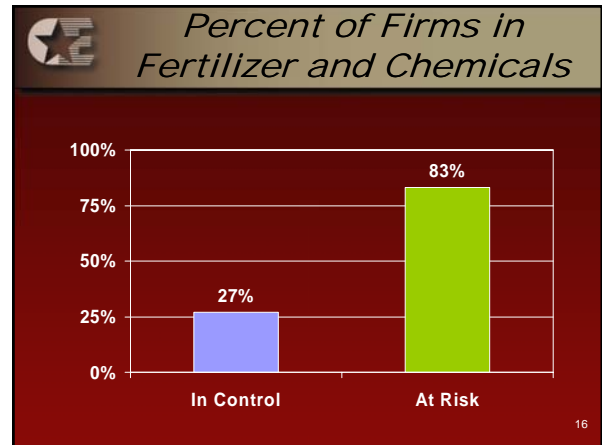
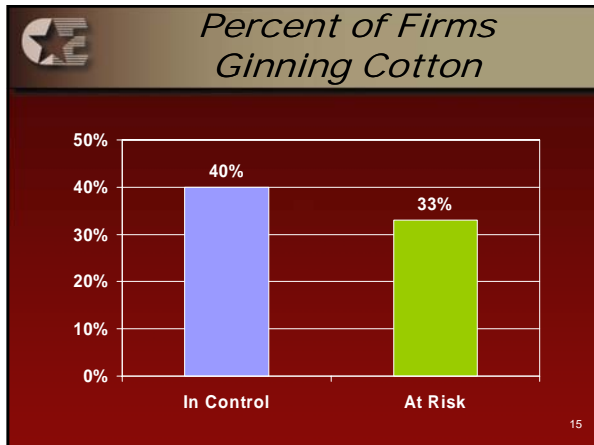
IN CONTROL	AT RISK
<ul style="list-style-type: none"> <li>E/A above 50%</li> <li>ROA above 8%</li> </ul>	<ul style="list-style-type: none"> <li>E/A below 50%</li> <li>ROA below 8%</li> </ul>
<ul style="list-style-type: none"> <li>15 firms earned a place in this group</li> </ul>	<ul style="list-style-type: none"> <li>6 firms earned a place in this group</li> </ul>

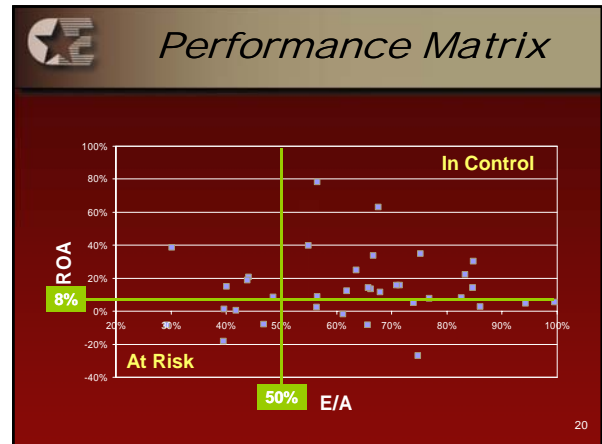
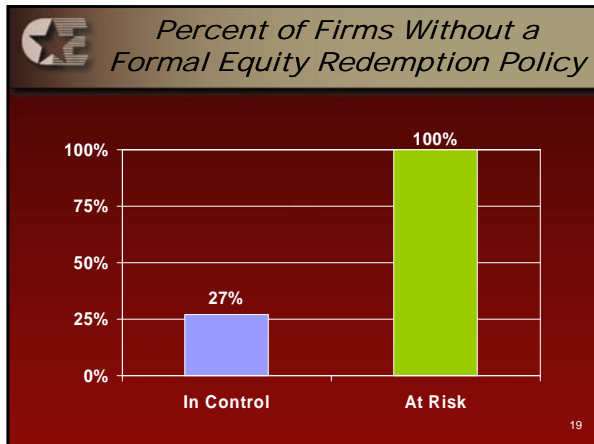
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### Actual Profiles

	In Control	At Risk
E/A	73%	42%
ROA	21%	- 5%
Current Liabilities	\$2.3 million	\$1.2 million
Long Term Liabilities	\$350,000	\$650,000
Net Income	\$2.6 million	- \$150,000

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### Member Evaluation of Cooperative Performance

- What other measures should we be using?
- What other measures are important for your cooperative?


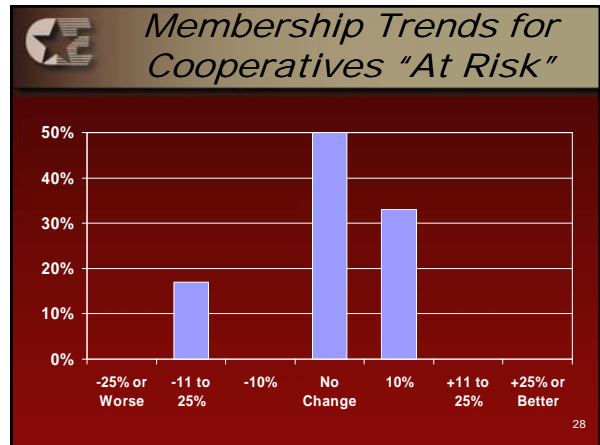
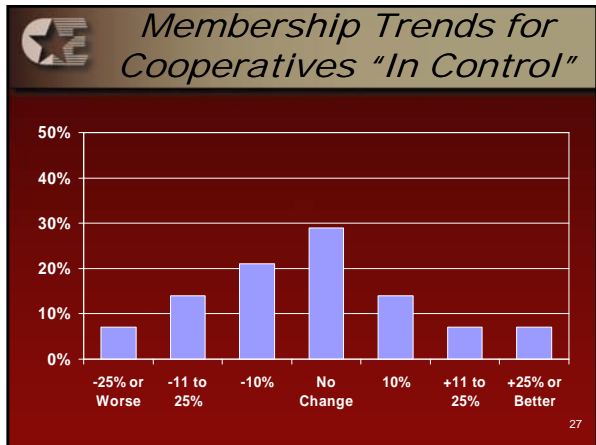
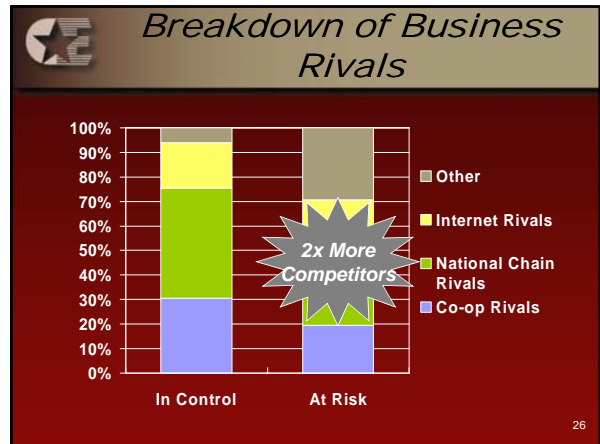
### Operating Philosophies

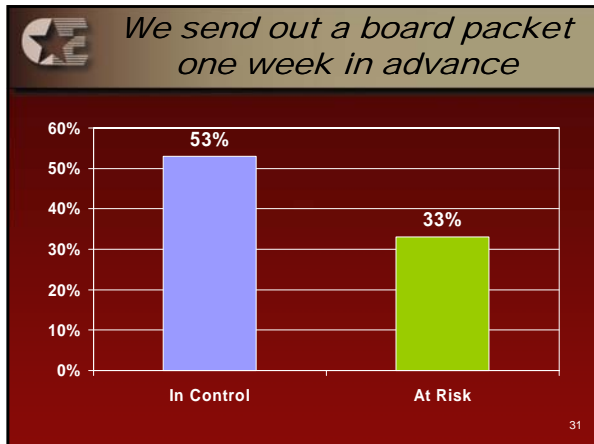
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### Attention: At-Risk Firms Must Evaluate Cost

- Knowing that you are in the At-Risk group can take politics out of your decisions
- Its important when evaluating major changes to let staff calmly do the analysis
- When you cut costs by \$1, what is the best you can do to improve profit?

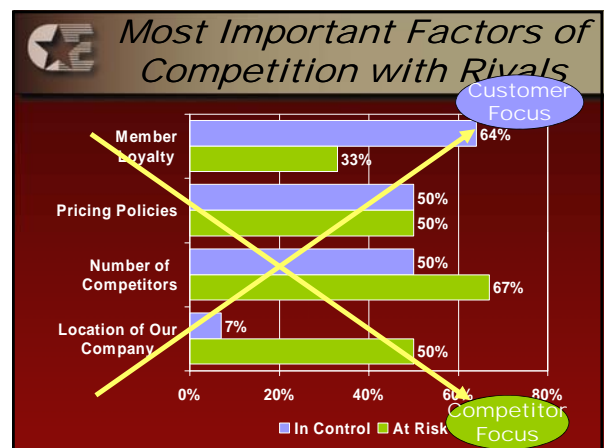
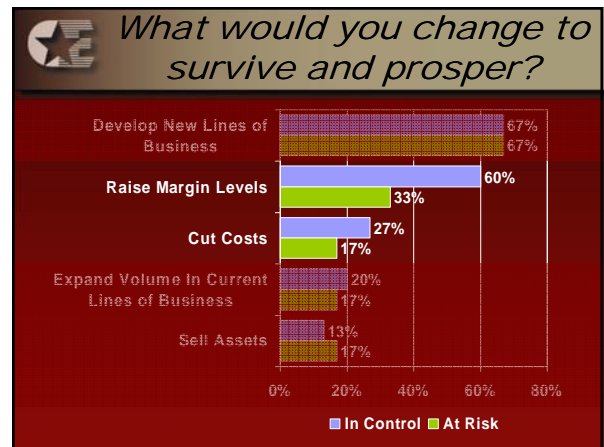





*Looking Ahead*

Attitudes for Future Success

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## Thoughts for Future Work?

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