



How To Start a Cooperative

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Cooperative is a form of business that is sparked by a group of individuals that have a common need for a product or service. These are normally types of services or products that can't be attained as an individual, but are feasible as a group and combining their efforts. Cooperatives have three distinctive features that make them unique: user-owned, user-benefited, and user-controlled. User-owned means that the patrons of the cooperative are the owners because they are the ones financing and investing in the cooperative. User-controlled means that the patrons to the business are the decision makers for the cooperative in that they have democratic control with a one member, one vote policy. User-benefited refers to the patrons receiving patronage refunds at the end of the year based on their use of the cooperative and the cooperative is providing the missing service or product that was not previously being filled. It is the responsibility of the cooperative to continue providing member education so that the members of the cooperative are knowledgeable about the cooperative business structure and how it benefits them.

Groups are forming cooperatives for several reasons, but the main reason is to improve their current personal income or economic position. There are two major activities that cooperatives typically provide: marketing and purchasing of supplies and/or services. Marketing activities include:

- 1) *Improving bargaining power* – This involves bringing together larger volumes of products to leverage against contracts for the growers. The cooperative is achieving more income than was possible of producers acting alone.
- 2) *Reducing costs* – These costs are the transportation costs to the producer when shipping their products or the large quantity purchase of supplies to get the volume discount.
- 3) *Gaining marketing access or broadening opportunities* – By organizing large lots of products, the cooperative can increase the amount of consistent quality product that it sells, in turn attracting more buyers.
- 4) *Improving product/ service quality* – The quality of the products can be enhanced through value-added processing or other available equipment and facilities that might not have been available to the producer without the cooperative.

Purchasing of supplies and/or services activities include:

- 1) *Obtaining products/ services not otherwise available* – These are products/ services that would not attract outside businesses to invest in their proposals.

- 2) *Decreasing costs/ Increasing income* – Members need to understand that by decreasing the cooperative's costs the cooperative is increasing their income because the patronage refunds are going to be higher for the patrons.

The cooperative must decide on a capital structure: stock or nonstock. Stock structure consists of common and preferred stock. Common stock signifies membership and voting privileges in the cooperative. Preferred stock accrues interest and pays dividends to the holder. Holders of preferred stock can be members and nonmembers, but do not have voting rights as holders of preferred stock. The nonstock structure involves issuing membership and capital certificates. Membership certificates don't accrue interest for the holder, but include membership in the cooperative and voting rights. Capital certificates accrue interest and are held by members and nonmembers, but do not give voting rights.

Organization Sequence

It is important to recognize that there are some people who are in opposition to the cooperative structure. There are various reasons for this opposition, but don't be discouraged by these people. Most opinions are formed from one bad experience with a cooperative. There are sixteen steps to the successful formation of a cooperative.

1. Invite potential members-users to a meeting and explore the need for a cooperative. Make sure that you fully explore using other businesses and other alternatives that could be used, but might harm the success of a cooperative being formed. This meeting is used to identify the leadership group for the rest of the process.
2. Conduct an exploratory meeting with other potential members and interested individuals. A cooperative development specialist from the Ohio Cooperative Development Center could attend the meeting and explore various business forms with the group and help them ask some important questions before proceeding. If the group agrees to continue with the process, then a steering committee should be formed. The steering committee is usually the first Board of Directors for the cooperative.
3. A member-user survey should be developed at this stage and several prospective members interviewed to determine the potential use of the cooperative. This gauges the interest in the cooperative and data to draw from when you are looking at the business potential for the cooperative over the next three years.
4. Hold a second general meeting and discuss the findings of the member-user survey and vote on whether to proceed with the venture.
5. The next step should be to conduct a cost or needs analysis. This looks at the cost of operation for the cooperative and helps to identify the markets that the cooperative would use in order to conduct business. The accessibility to the marketing channels is important for the success of the cooperative.

6. Hold a third general meeting and discuss the results of the cost or needs analysis and determine if the results are in accordance to continue in the process. A vote must be taken in order to determine the agreement among the group to proceed.
7. Conduct a feasibility study for the cooperative. This study identifies the assumptions that must be made for the cooperative's financial situation and operations for the next three years. It explores the operating expenses, labor needs, and capital needs of the cooperative if it is going to be successful. The feasibility study can be altered to include any parameters that the steering committee wants it to research. It is also important to draft a business plan for the cooperative at this point in time that lays out how the cooperative will operate.
8. Present the results of the feasibility study at the fourth general meeting. This allows the members to look at what data was collected about the cooperative's operations and its existence in the economy. The participants must agree to move forward with the process once the results of the feasibility study are presented. At this point in the process, the participants must decide whether they want to keep the current steering committee or replace some of the members.
9. The next stage involves drafting articles of incorporation and bylaws. This demands the expertise of an attorney that has knowledge about the cooperative model and its unique characteristics. The legal counsel aspect of incorporating your cooperative is essential, make sure to hire someone with experience in cooperative work.
10. Call a meeting of all involved members and prospective members of the cooperative to review and edit the bylaws for the final draft. The members need to elect the first Board of Directors at this meeting for the cooperative to move forward with operations.
11. Organize the first meeting of the Board and elect officers for the cooperative. Assignment of responsibilities to the Board members must take place in order to implement the business plan laid out earlier in the process.
12. Conduct a membership drive to raise additional capital and gain outside members to the cooperative. The business plan becomes a big part of recruiting new members because it plans out the total operations of the cooperative.
13. The cooperative now needs to raise capital from its members and to finance additional needs through a loan application. The capital of the cooperative can be in a stock or a nonstock structure.
14. The cooperative must now hire a manager that makes the daily decisions for the cooperative. Managers should be individuals that have experience in cooperatives, education, and can work well with people. It's important that the manager not have an ownership in the cooperative because this is considered a conflict of interest for the cooperative and its members.

15. Acquiring facilities is the next item for the cooperative to address. The cooperative needs a place to transact business with its patrons on a daily basis.
16. Begin operations with the members is the final step in getting your cooperative off to a successful start.

There are several rules of success for cooperatives. These come from the experiences of existing cooperatives and their members. The rules are rather simple, but making sure you address them effectively is harder than it seems:

- a) Advisers and committees must be used effectively for the benefit of the cooperative.
- b) Keeping the members informed and involved with the cooperative and its operations.
- c) Maintaining good board-manager relations.
- d) Conducting businesslike meetings.
- e) Following sound business practices in its operations.
- f) Linking the cooperative with other cooperatives.

Potential pitfalls are best learned from experienced cooperatives and their members. Several of the most common pitfalls that new cooperatives should be aware of follow so that new members, boards, and managers can learn from previous experiences:

- a) Lack of a mission statement that describes the cooperative's purpose.
- b) Inadequate planning by the steering committee and board.
- c) Failure to use experienced advisers in the building stages of the cooperative.
- d) Lack of member leadership within the cooperative.
- e) Lack of member commitment to the cooperative by using it to conduct business.
- f) Lack of competent management in the cooperative to lead it in short-term goals.
- g) Failure to identify and minimize the risks for the cooperative.
- h) Poor assumptions about the operations of the cooperative, especially in the feasibility study and cost analysis.
- i) Lack of appropriate financing for the operation of a successful cooperative.
- j) Inadequate communications among the members, board, manager, and the community.