

COOPERATIVES WHAT ARE THEY AND HOW DO YOU START ONE?

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WHAT IS A COOPERATIVE?

> Simple Definition:

“An enterprise or organization owned by and operated for the benefit of those using its services” (Merriam-Webster Dictionary)

CO-OP DIVERSITY

- > U.S co-ops range in size from Fortune 500 companies to single, small storefronts
- > What co-ops can you think of?



COOPERATIVES BY THE NUMBERS

- ❖ Serve 120 million members or 4 in 10 Americans
- ❖ Top 100 co-ops have a combined revenues of \$117 billion
- ❖ 250 Purchasing Cooperatives offer group buying to 50,000 independent businesses
- ❖ 10,000 credit unions have 84 million members and \$600 billion in assets

COOPERATIVES BY THE NUMBERS

- ❖ 900 rural electric cooperatives cover 75 percent of the land mass and serve 37 million people
- ❖ 1,000 mutual insurance companies have more than \$80 billion in premiums
- ❖ 6,400 housing cooperatives provide homes for 1.5 million households
- ❖ 30 percent of farmers' products are marketed through 3,000 farmer owned cooperatives

TYPES OF COOPERATIVES

- Consumer – owned by the people who use its services
- Producer – owned by farmers to market their products
- Worker – owned by the employees
- Purchasing/Shared Services – owned by independent businesses and small municipalities



COOPERATIVE ADVANTAGES

- Cooperatives exist to meet their members needs. Focus is on service not investment.
- Cooperatives are owned and controlled by their members. Increased local control keeps the co-op in the community.
- Profits return to members. Co-ops keep money in the community.
- Consumers believe co-ops have better products and services at a lower cost.



COOPERATIVE BENEFITS

- Allows members to pool their financial resources and conduct business activities they could not independently perform as efficiently
- Provides members with access to goods and services needed
- Benefits reflected with: patronage refunds, better prices, services otherwise unavailable, access to markets, and assures sources of supplies



IMPORTANT FACTORS FOR COOPERATIVE SUCCESS

- Clearly identify the economic need
- Reach agreement on the cooperative's mission
- Develop good leadership
- Gain commitment of members to do business with the cooperative
- Follow sound business practices



COOPERATIVE DISADVANTAGES

- Access to capital
- Cost of member and public education
- Investment in democratic process
- Limit in scope of operations
- Co-ops are only as good as their members ask them to be



WHY COOPERATIVES FAIL

- Poor selection of directors
- Poor leadership
- Lack of member involvement
- Inadequate capitalization
- Poor planning
- Lack of open communication with membership



COOPERATIVE VALUES

- Self-Help
- Self-Responsibility
- Democracy
- Equality
- Equity
- Solidarity

ETHICAL VALUES

- Honesty
- Openness
- Social Responsibility
- Caring for Others

7 COOPERATIVE PRINCIPLES

- Voluntary and Open Membership
- Democratic Member Control
- Member Economic Participation
- Autonomy and Independence
- Education, Training, and Information
- Cooperation among Cooperatives
- Concern for Community

VOLUNTARY AND OPEN MEMBERSHIP

- Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination
- Member participation should be based upon clear understanding of cooperative's vision and acceptance of responsibilities of membership
- May close membership based on ability to use or on a limit that it can effectively serve
- Obligates leadership to elicit information from entire membership

DEMOCRATIC MEMBER CONTROL

- Cooperatives **are** democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. Cooperative members have equal voting rights (one member, one vote).
- Assumes members will participate in setting policy and giving broad direction
- Democratic control involves electing representatives to serve on the board of directors, attending membership meetings, and voting for structural changes as requested by the board of directors

MEMBER ECONOMIC PARTICIPATION

- Members contribute equitably to the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.
- Outlines the use of surpluses which illustrates the purpose of cooperative is to meet needs of its members not accumulate capitals in the hands of a few investors
- Important to have "Skin in the Game"

AUTONOMY AND INDEPENDENCE

- Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy
- Must be free from government intervention and other sources so members can control their destiny
- Capitalization and financial pressures can make it difficult for cooperative to adhere to this principle
- When the co-op begins following the “free money” path, it risks losing its autonomous nature

EDUCATION, TRAINING AND INFORMATION

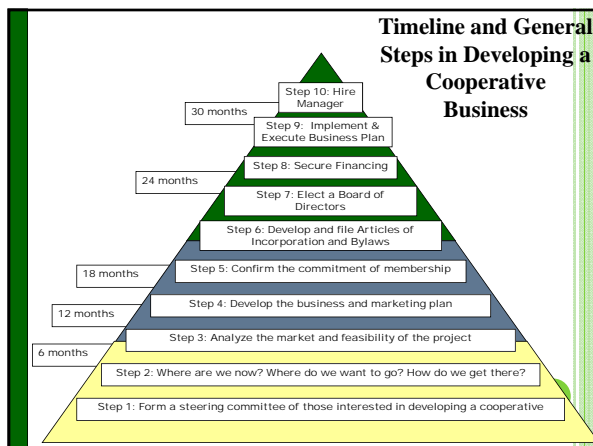
- Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.
- Communication is vital in a cooperative because of democratic control by members, meeting members needs, and rarity of cooperative business model
- Manager training is one of the best investments a cooperative can make
- Financial pressures and time demands can make difficult

COOPERATIVE AMONG COOPERATIVES

- Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures
- Cooperatives often lack necessary resources to meet all the needs of its members; can meet at lower cost by working with other co-ops
- Cooperatives should not view other co-ops as competitors; very difficult for many to adhere to this principle

CONCERN FOR COMMUNITY

- Cooperatives work for the sustainable development of their communities through policies approved by their members.
- Cooperatives recognize that healthy communities are important to the strength of their business
- Cooperatives have a vested interest in the community because the owners/members are members of the community



STEP 1

Select a steering committee

- The committee has two major responsibilities:
- a. Deciding the feasibility of the cooperative
 - b. Preparing a specific, detailed business plan

The committee will consult specialists in the areas of law, finance, cooperative business operations.

STEP 2

Where are we now? Where do we want to go? How do we get there?

- During this step a leader should emerge who helps lead the steering committee.
- Need to begin to do some strategic planning
- Want to get some idea of the level of interest
- Conduct potential member survey
- Have conversations with others who have developed a similar cooperative
- Learn as much as possible about the development process

STEP 3

Analyze the market and feasibility of the project

- Talk to others about who conducted their feasibility study
- Get referrals
- Determine if a professional consultant is required or if the work can be accomplished "in house" or through the use of graduate students
- Determine how to pay for the feasibility study
 - Have fund raising events
 - Ask potential members to invest earnest money
- Conduct a third exploratory/community meeting
 - Discuss results of feasibility study and determine whether it's a "go" or "no-go" situation

STEP 4

Develop the business and marketing plan

- Steering committee will decide whether to hire a consultant to prepare the business plan or use in-house talent
- Business plans are critical to the development and success of the co-op
- Funders will want to see a business plan

STEP 5

Confirm the commitment of membership

- Talk to potential members about their continued interest and keep them informed of progress
- Especially important as the timeline can be very long without a lot of outward progress

STEP 6

Develop and file Articles of Incorporation and Bylaws

- Important to identify an attorney familiar with co-op laws
- Looks at legal documents from other similar co-ops so you're not starting from ground zero
- At the first annual meeting, the membership will approve the bylaws

STEP 7

Elect a Board of Directors

- Many times the original steering committee members may become the first board of directors
- Members should be elected with staggered terms (luck of the draw)

STEP 8

Secure financing

- Board has the authority and power to incur debt for the organization
- Important to have your banker/lender involved in the organization as early as possible
- Capital can be from equity (members purchasing stock) or debt (borrowing from an institution)
- Debit may also be from member loans



STEP 9

Implement and execute the business plan

- Business plan is living, breathing document intended to be the map or guide for the cooperative
- Should be reviewed periodically



STEP 10

Hire Manager

- Important duty of the board of directors
- Manager works for and reports directly to the board
- Manager is responsible for hiring other employees
- Board now needs to relinquish day-to-day operations to the manager



Questions

