



# Understanding Cooperatives: The Structure of Cooperatives

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Cooperatives exist in nearly every business sector and are organized in a variety of ways. Like other businesses in our economy, they range in size from organizations with only a few member-owners to large and complex organizations with thousands of member-owners. The way a cooperative is organized determines how it is operated, managed, and controlled by its members, and the types of benefits offered.

Cooperative structure can be classified into five types as follows: geographic, governance, functions, financial, and other arrangements. Each will be defined and discussed in this circular.



Regional Cooperative

## Geographic Territory Served

Cooperatives can differ in structure, depending on the size of the area served: local or regional.

Local cooperatives typically operate in a single State, often within one or two counties. Individuals are the members of these local cooperatives.

Regional cooperatives usually serve an entire State or a number of States. They can have operations that are nationwide or that cover major portions of the United States. Some regional cooperatives also have international operations with sales and members in more than one country.

## Governance or Control Structures

Based on membership structure, cooperatives can be classified as centralized, federated, or mixed.

A local cooperative is a centralized cooperative — individual producers make up the membership. A centralized regional may serve members in a large geographical area, and have one central office, one board of directors, and a manager (chief executive officer) who supervises the entire operation. Business may be conducted through several branch offices.

A federated cooperative is a cooperative of cooperatives. The members of a federated cooperative are local cooperatives, each operated by a manager responsible to a board of directors. Each local association in a federated cooperative is a separate business entity that owns a membership share entitling it to voting rights in the affairs of the regional.

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The federated cooperative has its own hired management and staff, and a board of directors elected by and representing the local associations.

A mixed cooperative is a combination of the two — their members may be individual producers as well as local cooperatives.

### Functions Performed

Cooperatives may perform one or more of these functions for members:

- ◆ Marketing products;
- ◆ Purchasing supplies; and
- ◆ Providing services.

### Marketing

The need to meet consumer demands and expand markets for products presents an

increasing problem for farmers acting independently. Few farmers produce in quantities needed to deal directly with large wholesalers or retailers. Marketing cooperatives provide an increasing variety of off-farm processing and marketing services for about one-fourth of all products that farmers produce.

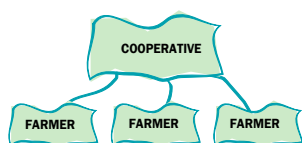
Marketing cooperatives help farmers produce and process quality products to market specification. Cooperative marketing includes the operation of grain elevators, milk plants, wool pools, cotton gins, livestock markets, vegetable markets, and nut- and fruit-packing plants. Some marketing cooperatives include the coordination of processing, canning, drying, blending, concentrating, extracting, freezing, or consumer packaging of animal and animal products, such as dairy, fish, meat, and poultry and the same for fruit, nut, and vegetable products, and many other products in integrated organizations.

Marketing cooperatives enable farmer-members to extend control of their products as long as the cooperative retains physical or legal title to a commodity handled through processing, distribution, and sale.

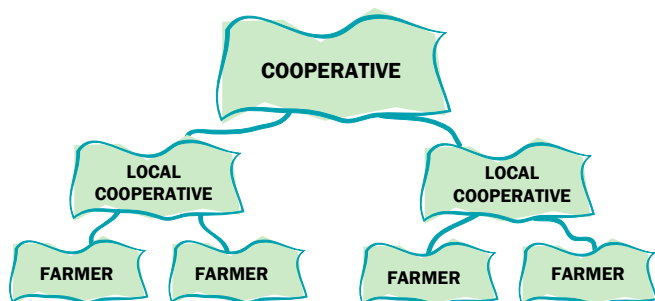
Some marketing cooperatives also can be called bargaining associations, which may not handle the actual product but rather act as the selling agent on behalf of the member.

### Purchasing

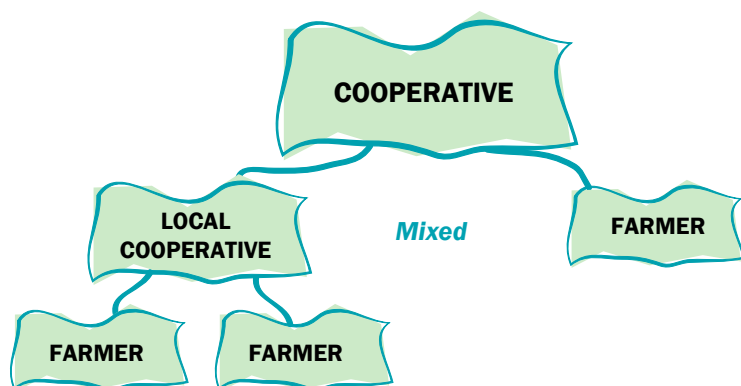
Farmers first turned to cooperatives as economic tools to gain advantage of quality and quantity of farm production supplies such as feed, fuel, fertilizer, and seed. These early efforts often became businesses having full-time managers and warehouses to handle other production supplies and services such as farm chemicals, ani-



Centralized



Federated



Mixed



mal health products, fencing, building supplies, construction contracting, automotive accessories, etc.

Most purchasing cooperatives have affiliated with other cooperatives, often through regional and interregional cooperatives. These efforts reduce farmer costs and strengthen purchasing power through owning large-scale facilities, such as petroleum refineries and feed mills.

One of a purchasing cooperative's objectives is to reduce production costs for members through quantity purchasing, manufacturing, and distributing, procuring quality products, and providing related services as needed. Distribution to producer members is a major concern at the local level because added services are needed. Another objective is to provide a dependable supply of quality products for members.

Many cooperatives now perform both marketing and purchasing functions, although they started as single-function organizations.

### **Service**

Some agricultural service cooperatives provide services related to the production and marketing of farm commodities. Others provide general services.

Related service cooperatives offer unlimited possibilities and are used in ever-widening circles to solve mutual problems and provide specialized services that affect the location, form, or quality of farm products or supplies for members. Services may be part of the operation, or they may be performed by separate cooperatives.

Examples of services offered by farm supply co-ops include: recommending and applying fertilizer, lime, or pesticides; cotton ginning; animal feed processing; and crop harvesting. General service coopera-

tives provide a number of specialized services assisting farmers in their business such as credit, electricity, and telephone service.

### **Financial**

Cooperatives are incorporated as either stock or nonstock organizations. The type of capital structure is specified in the articles of incorporation.

If the association is a capital stock organization, members receive stock certificates as evidence of their ownership interest. More than one type of stock may be issued, but usually no more than two types are necessary. Most stock cooperatives issue one share of common stock per member to show membership. Preferred stock is issued to show additional capital contributions. (Common stock is usually the voting stock; preferred stock is generally nonvoting.)

If the association is a nonstock organization, it issues some kind of certificate to show capital contributions of members. Two types are usually used — a membership certificate as written proof of the right to vote and capital certificates in a manner similar to the way stock cooperatives use preferred stock.

### **Other Structural Arrangements**

#### **Subsidiary**

A corporation organized, owned, and controlled either totally or partially by a parent cooperative. Its purpose is to assume certain duties and functions of the parent cooperative.

#### **Marketing Agency-in-Common**

Organized by two or more marketing cooperatives to market products or provide services for member cooperatives. It does not

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**The cooperative can  
be most effective by  
serving its members'  
needs.**  
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physically handle products, and it generally does not take title to them. Its sole responsibility is to arrange for the sale of its members' products.

**Joint Venture**

An association of two or more participants, persons, partnerships, corporations, or cooperatives to carry on a specific economic operation, enterprise, or venture. The identities of these participants remain separate from their ownership or participation in the venture.

**Holding Company**

A corporate entity with a controlling ownership in one or more operating companies. The degree of ownership can vary widely, as long as the holding company can exercise control through the operating company's board of directors. Usually the holding company generates no revenues from operations; income is limited to returns from investments in the operating companies.

**Contract Agent**

A county or community cooperative may organize, owning nothing but contracts and paying only the money to hire an agent to handle the goods and keep patronage

records. The cooperative then pays patronage refunds on the basis of the agent's records.

**Private Dealers**

The dealer, as a franchise, keeps records. If the franchiser cooperative makes money and pays patronage refunds, these go to the dealer's customers and the dealer is paid a commission on sales.

**Conclusion**

Cooperatives are classified as a way to easily identify the nature of the business. The classifications do not mean that one type may necessarily be better or worse than another. It simply means that there are distinguishing differences among the types, and shows the wide variety of cooperatives and the differences in their operations, management, control, etc.

What is important for cooperative members to understand about cooperative structure and their own organization is:

- ◆ What type of cooperative it is;
- ◆ How it is structured; and
- ◆ How the cooperative, whatever its classification, can be most effectively used by its members for serving their needs and achieving objectives. ■

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This circular is one of a continuing series that provides training information and presentations for education resource persons who may or may not be familiar with the cooperative form of business. This series provides the basic background material they need and in a form that can be readily adapted, with limited preparation time, to a lecture or other presentation.

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