

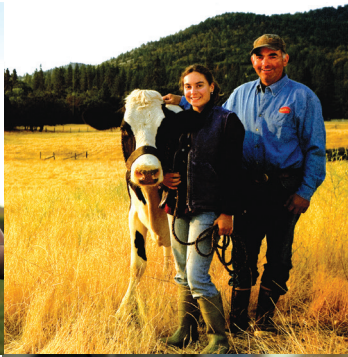


United States Department of Agriculture

Rural Development / Cooperative Information Report (CIR) 54

Do Yourself a Favor

Join a Cooperative



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Editor's note: This publication was originally produced in 1996 by Donald A. Frederick, then the program leader for the Law, Policy & Governance Division within the Cooperative Programs office of USDA's Rural Business-Cooperative Service. It was updated in 2018 by Dan Campbell, co-op publications editor, and James Wadsworth, ag economist and program leader of the Co-op Education Division.

On the cover: This photo collage represents the wide scope of needs cooperatives meet across the nation. Left to right, from the top:

Row 1: Co-ops support young and beginning farmers in many ways, including on-farm internships; Dairy co-ops handle 85 percent of the Nation's milk; Co-ops are major developers of wind and other renewable energy sources;

Row 2: Nearly 1,900 farmer-owned co-ops generate \$200 billion in annual sales; Worker co-ops are active in many sectors, including providing home care for seniors and disabled people; Food co-ops can be owned by consumers, workers, or a combination thereof.

Row 3: Credit unions and Farm Credit associations are co-ops owned by member-borrowers; Many manufactured home owners have formed co-ops to buy and control their community property; rural people rely on utility co-ops to provide power and telecommunications services, including broadband.

Do Yourself a Favor: JOIN a Cooperative

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<https://www.rd.usda.gov/programs-services/all-programs/cooperative-programs>

For more than 200 years, Americans have worked together in business cooperatives to meet critical challenges and to solve problems that were too big for them to overcome as individuals. Today Americans of every



type and occupation belong to nearly 31,000 cooperatives nationwide. These include: farmer co-ops that help producers process and market their crops and livestock and provide them with essential farm supplies and services; rural utility co-ops that provide their consumer-members with electricity, telecommunications services and water; financial services co-ops and credit unions, grocery co-ops and a wide

array of retail operations, such as hardware and building supply co-ops, among others. Worker co-ops are also gaining in popularity in areas such as home care services for seniors and people with disabilities, and in some processing and retail sectors. U.S. cooperatives generate some \$650 billion in annual revenue and create about 2.1 million jobs.

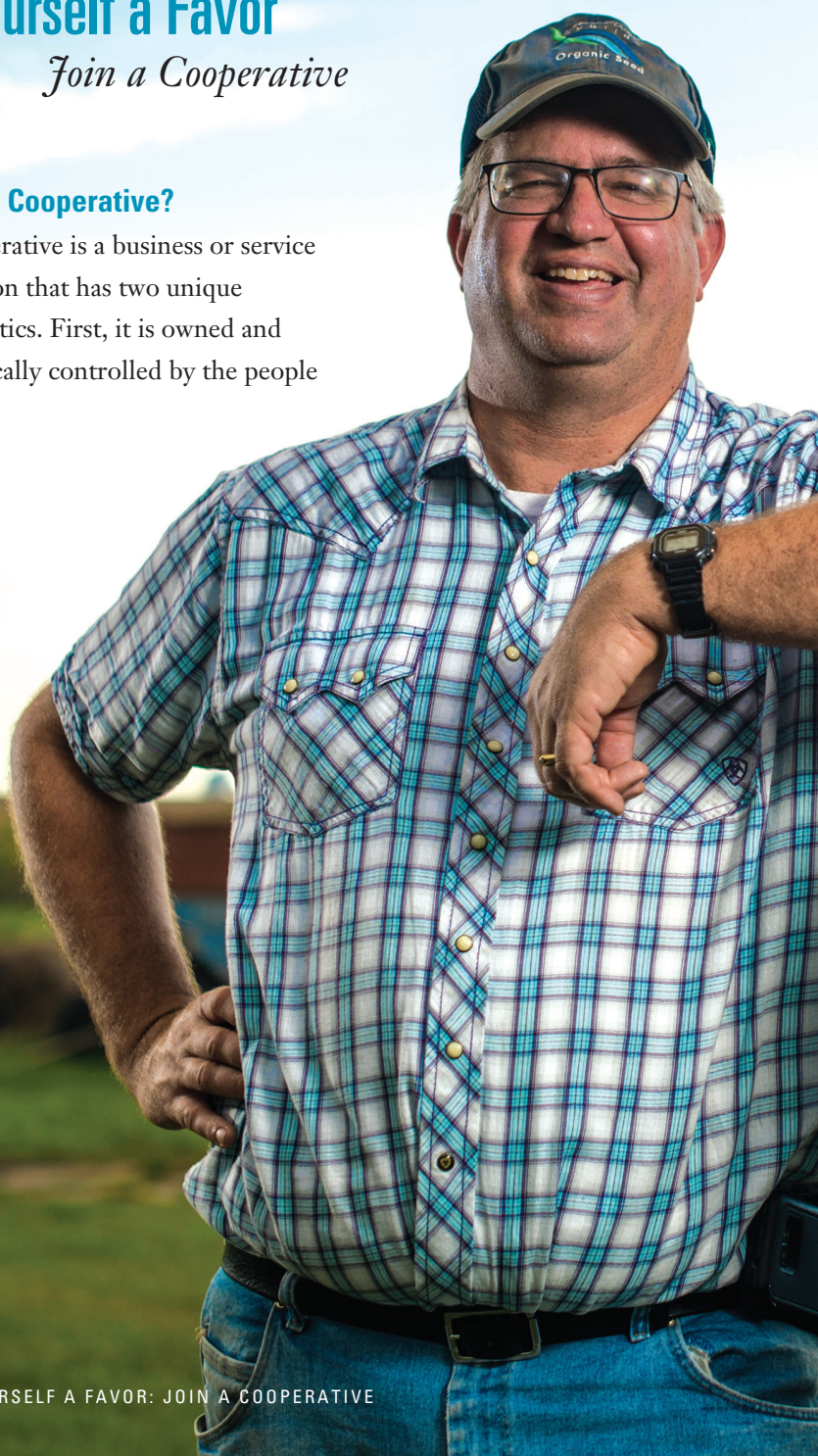
This pamphlet shows how you can use a cooperative to increase your income and better control your future. It focuses on the unique aspects of doing business and providing services on a cooperative basis and the special benefits that cooperative members enjoy.

Do Yourself a Favor

Join a Cooperative

What Is a Cooperative?

A cooperative is a business or service organization that has two unique characteristics. First, it is owned and democratically controlled by the people



who use its services. Second, the benefits (services received and earnings allocations) are distributed to the user-owners on the basis of how much they use the cooperative. A business or service organization that operates as a cooperative can help members achieve long-term prosperity and a better quality of life.



User Ownership and Control

The focus of non-cooperative, investor-owned businesses is strictly on the “bottom line,” or the highest profit. The stockholder-owners may never use the products their company produces. Their primary concern is increasing the value of their stock and/or dividend payments.

A cooperative takes a different approach. It is not owned and controlled by outsiders, but rather by the people who use its services regularly, often daily. While a cooperative has to cover its costs to stay in business, it can focus its resources on meeting the needs of its user-owners (usually called “members.”) Business decisions are made on the basis of what is in the overall best interests of the members. Each member maintains his or her status as an individual, and the cooperative becomes a means to realize business and personal goals.

Co-op members exercise control of the business by:

1. Electing the co-op’s board of directors. The board of directors hires and oversees management. Management oversees the day-to-day operations of the business. Directors meet regularly to review business performance and set policy direction for the cooperative. Members elect directors from among their fellow member-users. As regular customers of the cooperative, directors have firsthand knowledge of its strengths and where improvement is needed. They have a personal stake in seeing that the business meets its goal of helping the members prosper. If directors are not doing a good job, members have the authority to elect someone else or even recall and replace directors during a term.

2. Approving co-op articles and bylaws. The articles of incorporation and the bylaws are legal documents that establish general rules for how a cooperative will be organized and operated. These include who can become a member, the number and method of electing directors, and how members will finance the cooperative. These legal documents are first adopted when the



cooperative is organized and can be amended at any time by a vote of the members.

3. Voting on major changes in the business. While directors oversee the general operation of a cooperative, the members usually must approve any change in its basic structure. This includes proposals to merge or consolidate, to form a joint venture with another cooperative or non-cooperative firm, or to dissolve the cooperative. Members also sometimes vote on entering a major new line of business and on substantial investments, such as buying or constructing a new facility. Only the members can restructure a cooperative, sell it, or shut it down.

The way members of a cooperative vote is also different from an investor-owned firm. In a non-cooperative business, people usually have voting power that reflects their equity investment. For example, shareholders in an investor-owned corporation have one vote for each share of common stock they own.

In a cooperative, each member generally has only one vote regardless of the amount of equity owned. This one-member, one-vote approach makes cooperatives prime examples of democracy in action. Wealthy members can't buy control, because all members have an equal say in how the business is conducted.

Benefits Accrue According to Use

People buy stock in a non-cooperative business to make money on their investment. The more of the company you own, the more benefits (stock appreciation and dividends) you will realize if the business succeeds. The benefits of being a cooperative member differ in two ways. First, the advantages are more numerous. Second, they are distributed on the basis of how much use you make of the cooperative, rather than your equity stake.

Below are some of the benefits of cooperative membership.

1. Access to quality supplies and services at reasonable cost.

By banding together and purchasing business supplies and services as a group, individuals offset the market power advantage of firms providing those supplies. You can gain access to volume discounts and negotiate from a position of greater strength for better delivery terms, credit terms,

and other arrangements.

Suppliers will be more willing to discuss customizing products and services to meet your specifications if the purchasing group provides them sufficient volume to justify the extra time and expense.

The larger the group purchasing supplies and services through the cooperative, the greater the potential for savings.





Further, the more members use the supply operation, the more they save over doing business elsewhere. Another option for cooperative members is to manufacture their own supplies and hire experts directly to provide essential services. This gives members even more reliable sources of supply and greater control over the types of products available, the cost, and the quality of the services received.

2. Increased clout in the marketplace.

Marketing on a cooperative basis, like purchasing supplies and services, gives members the ability to combine their strength while maintaining their status as independent business people. They can lower distribution costs, conduct joint product promotion, and develop the ability to deliver their products in the amounts and types that will attract better offers from purchasers.

A Federal law, the Capper-Volstead Act, provides farmers with an extra incentive to market cooperatively: a limited exemption from antitrust

liability for marketing agricultural products on a cooperative basis. Under this law, farmers can agree on the prices they will accept for their products and other terms of sale.

Through cooperative marketing, members can share information and negotiate with buyers from a position of greater strength and security. They can also develop processing facilities by themselves or as part of a joint venture with other cooperative or non-cooperative firms. A cooperative can also serve as a vehicle for people selling goods and services to work with their customers to promote industry research, reduce regulatory burdens, and develop markets for their products. A cooperative can thus help create a “win-win” situation for the entire industry, creating a business environment where both producers and buyers derive more income and other benefits.

3. Share in the earnings.

Some people talk about non-cooperative firms operating “for profit” while cooperatives operate “at cost.” This isn’t totally accurate. Most cooperatives generate earnings. Where they differ from non-cooperative firms is in how they allocate and distribute their earnings. A non-cooperative firm retains its earnings for its own account, or perhaps pays part of them out to shareholders as dividends, based on the amount of stock each investor owns. In a cooperative, earnings are usually allocated among the members on the basis of the amount of business each did with the cooperative during the year.





Permitting their cooperative to accumulate retained patronage refunds is a relatively easy and painless way for members to help finance cooperative activities and growth. Also, if certain rules in the Internal Revenue Code are followed, the cooperative is permitted to deduct both the cash payouts and the retained patronage refunds from its taxable income. This makes cooperative earnings particularly valuable.

4. Political action.

Growers, small business owners, and other rural residents have to realize that no one gives you a favorable law or regulatory ruling just because you think you deserve it. You have to build your case and argue your point convincingly. A cooperative gives people a means to organize for effective political action. They can meet to develop priorities and strategies. They can send representatives to meet with legislators and regulators. These

representatives will likely have more influence because they will be speaking for many, not just for themselves.

Co-ops can also form coalitions or join trade groups with others having similar needs and views on issues. The larger the voice calling for a specific action, the more likely that the system will respond with the policy you desire. Some examples of such organizations are the National Council of Farmer Cooperatives, National Cooperative Business Association, National Rural Electric Cooperative Association and the Credit Union National Association, to name but a few.

5. Local economy enhanced and protected.

Owning and controlling a business on a cooperative basis helps your entire community. Cooperatives generate jobs and salaries for local residents. They pay taxes that help pay for schools, hospitals, and other community services.

When a business is a cooperative, your town is less likely to lose those jobs and taxes. A business owned by one person, or a subsidiary of a big company, can easily be moved to another community, State, or even be “off-shored” to another country. When many local people share the ownership of a cooperative, no individual or company president can take it from your area or simply close it. Only the membership as a whole can make such decisions.

Why Not a Nonprofit?

Sometimes people confuse cooperatives with nonprofit associations. Or they think organizing as a nonprofit sounds appealing because they have heard that nonprofits are totally exempt from taxation and have easier access to grant funding.

Clear distinctions exist between nonprofit groups and businesses. Nonprofit laws and tax treatment are designed for charitable and civic organizations, such as the Red Cross and the Rotary Club. They are not appropriate for business ventures. For example, one of the main characteristics of a cooperative is that earnings are returned to patrons on



the basis of use. But in a nonprofit, all earnings must be retained in the organization and, upon dissolution, all assets usually must go to another nonprofit. Thus, operating as a nonprofit keeps members from sharing in the earnings of their business.

The Real Bottom Line

Cooperatives are not solutions in and of themselves. They are a means for people to achieve an honest day's income for an honest day's work, or to meet other social and economic needs. To succeed, they require capital, commitment, patience, and a membership willing to work together even if it means giving up a little individuality in the process. But the rewards — a higher income, access to better supplies and services at a fair price, a greater ability to control the fate of your business, stronger communities and a better quality of life, as well as the satisfaction of having solved problems — make it well worth the effort to join or start a cooperative.

Other publications that can help you learn about cooperatives

The USDA Rural Business-Cooperative Service has more than 200 publications about cooperatives, as well as more than 10 years of back issues of Rural Cooperatives magazine, posted on its website at: <https://www.rd.usda.gov/publications/publications-cooperatives>. Many are also available in hard copy, free of charge. To place an order or ask a question about availability, contact us at: coopInfo@wdc.usda.gov, or call (202) 720-7395, or write: USDA Rural Business-

Cooperative Service, 1400 Independence Ave. SW, STOP 3254, Washington, D.C. 20250-32564.

Some of the more popular publications that provide an overview of cooperatives and how to start a co-op include:

■ ***Cooperatives 101: An Introduction to Cooperatives (CIR 55)*** — This report provides a comprehensive summary of basic information on the cooperative way of organizing and operating a business. It covers the nature and extent of the use of cooperatives, compares cooperatives to other business structures, explains the roles various people play in a cooperative, and discusses equity accumulation and income taxation.

■ ***Co-op Essentials: What They Are and the Role of Members, Directors, Managers and Employees (CIR 11)*** — This guide (a companion publication to USDA's "Co-ops 101") provides essential information about cooperatives. It explains what cooperatives are, including their business structure and principles. It examines the responsibilities and roles of cooperative members, directors, managers, and employees.

■ ***How to Start a Cooperative (CIR 7)*** — This guide outlines the process of organizing a cooperative business and provides information on the potential steps involved and some important aspects of co-op development. It presents the 12 steps involved in most cooperative development projects. A cooperative business is also briefly described, including its structure and basic principles.

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