



Understanding Cooperatives: How to Start a Cooperative

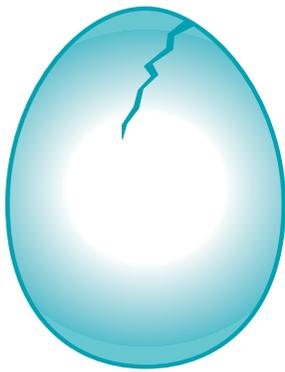
Cooperative Information Report 45, Section 14



**United States
Department of
Agriculture
Rural Development**

Cooperative
Programs

September 1995
Revised
April 2011



Stage 1

*Is there an
economic need?*

**Yes - Proceed to
Stage 2**

**No - Stop cooper-
ative development**

When Should a Cooperative be Organized? Cooperatives are formed in response to an economic need, such as providing marketing, processing, bargaining, manufacturing, and purchasing services not currently available, or available only at excessive cost.

If interested in forming a cooperative, learn all you can about the legal, economic, and financial aspects of a cooperative business. Careful planning increases the chances of success.

Why Groups Organize Cooperatives:

- ◆ To improve bargaining power;
- ◆ To reduce costs;
- ◆ To obtain products or services;
- ◆ To create new and expand existing market opportunities;
- ◆ To improve the quality of products or services;
- ◆ To increase income.

Steps in Organizing

Determine the Economic Need

A cooperative is organized in response to a specific problem or opportunity. The idea is often initiated by a small group that meets to discuss the need. The meeting should focus on the economic need and the potential use of a cooperative as a solution.

Discussion topics should include:

- ◆ What information about the perceived need is readily available?
- ◆ Could a cooperative effort address this need?
- ◆ What information about cooperatives is available?
- ◆ Who can serve as an adviser to the group?
- ◆ Who should be invited to a meeting of potential users?
- ◆ How should potential users be contacted?

If a cooperative seems to offer a solution, a larger meeting of interested potential users may be planned.

Hold Initial Exploratory Meeting

A meeting of potential member-users should be called to decide if interest is sufficient to support a cooperative. The meeting date, time, and place should be publicized in advance. The leadership group should select a chairperson to conduct a meeting and develop an agenda. These items should be discussed:

- ◆ What is the need;
- ◆ Possible solutions;
- ◆ Cooperative principles and terms;
- ◆ Advantages and disadvantages of a cooperative;
- ◆ What financial and other commitments are expected of user-members;
- ◆ Cooperative organization and feasibility analysis process;
- ◆ Allow time for potential members to ask questions. If the group votes to continue with more detailed study, a steering committee should be selected.

Member participation in decisionmaking activities and sense of cooperative spirit are important for success.



Stage 2

Can a cooperative offer a solution?

Yes - Proceed to Stage 3

No - Stop cooperative development. Consider other organization structure.

Select a Steering Committee

Steering committee members should have both an interest in the cooperative and sound business judgment. They often become the cooperative's incorporators and may serve as its first board of directors. The committee has a two-part job:

- ◆ Deciding the feasibility of the cooperative: Will the proposed cooperative succeed? Will it be valuable to members?
- ◆ Preparing a specific, detailed business plan for the proposed cooperative.

The committee should consult specialists in the areas of law, finance, and cooperative business operations. Two essential studies must be initiated: a member-use analysis and an initial market analysis.

Conduct a Member-Use Analysis and Initial Market Analysis.

The steering committee must take steps to learn all it can about the cooperative's potential members and what the cooperative can do for them. The survey should explore four areas:

- ◆ **Members' needs**—The cooperative is formed and operated for the sole purpose of meeting members' needs;
- ◆ **Anticipated business volume**—The cooperative must have some assurance of sufficient volume to operate as a business and to plan for facilities and needed equipment;
- ◆ **Location and business or service characteristics of prospective members**—Where, how, and when the cooperative delivers its services is a prime consideration;
- ◆ **Opinions of members**—How do potential members feel about cooperatives and participation in one? Member participation in decisionmaking activities and sense of cooperative spirit are important for success.

Prior to conducting the initial market analysis, the steering committee will first meet to review the member-use analysis. Potential members have been surveyed regarding their interest in joining the proposed cooperative, anticipated business volume, and willingness to commit their product and capital. Depending on results, the steering committee then decides whether to proceed with the project.

Following a decision to proceed, an initial market analysis is conducted to determine if the proposed cooperative has an economic role in the marketplace. This analysis will identify and examine market conditions to provide insight into appropriate activities for the cooperative, volume, facility, and technological needs, and other pertinent factors.

The market or supply analysis will determine if the proposed cooperative has an economic role in the marketplace. The analysis will identify which activities are appropriate, business volume, and financial capabilities of the potential cooperative members.

Second Member Exploratory Meeting

This meeting of potential members reviews results of the member-use and initial market analyses. Based on the information presented, the participants vote either to continue or abandon the project. If they choose to continue, the next step is to conduct a comprehensive feasibility analysis.

Potential members may be asked to invest earnest money at this point to demonstrate their commitment to the cooperative and to cover further analysis and organizational costs.



Conduct a Feasibility Analysis

A comprehensive feasibility analysis, conducted by an experienced practitioner, will help the steering committee determine if the proposed cooperative is feasible given well-determined assumptions, researched information, and the member-use and initial market analyses. This study determines management, marketing, technical, economic, and financial feasibility, and presents the entire cooperative concept in one document. It will provide the foundation for the business plan if a decision to proceed is made.

Third Member Exploratory Meeting

At the third exploratory meeting, the steering committee presents the comprehensive feasibility analysis findings to potential members and provides the committee's recommendation on whether to proceed. If the decision by the group is then to proceed, the next step is to prepare a business plan and draft legal documents.

Prepare a Business Plan

Every business should have a business plan. The steering committee should arrange for completion of an in-depth business plan prepared by a professional familiar with cooperative organization. The plan is developed from the foundation provided by the feasibility analysis and provides an organizational map that the new cooperative will follow as it begins operations.

Draft Legal Papers and Incorporate

The articles of incorporation state the purpose and scope of the cooperative business and give the cooperative a distinct legal standing.

The bylaws state how the cooperative will conduct business and must be consistent with both State statutes and the arti-

cles of incorporation. Legal counsel should be consulted on these and other legal documents, such as membership or marketing agreements.

Fourth Exploratory Member Meeting

At this meeting, potential members review the work and recommendations of the steering committee, including the articles of incorporation, bylaws, and any adjustments made to the business plan. Support for the cooperative should again be evaluated by a vote on whether or not to form the cooperative. If affirmative, the incorporators file the articles of incorporation.

First Annual Meeting of Cooperative

At the first meeting of the cooperative, members carry out two very important member responsibilities:

- ◆ Approve the bylaws;
- ◆ Elect the board of directors.

Steering committee members are often board candidates, but other members may also be elected to these leadership positions.

First Board of Directors Meeting

The first meeting of the board of directors should focus on selection of the board officers, committee appointments, and carrying out the business plan. Additional agenda items include arranging debt capital, conducting a membership drive, establishing manager qualifications, and conducting a manager search.

Acquire Capital

The board of directors is responsible for arranging adequate capital. Capital may be raised by members purchasing stock (equity) and borrowing funds (debt) from a lending institution. Members must invest or



Stage 3

Is there member interest?

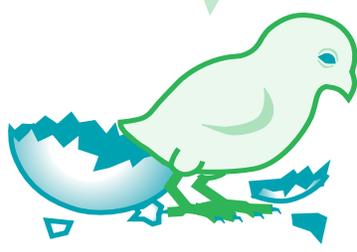
- Yes - Proceed to Stage 4
- No - Stop development



Stage 4

Is cooperative plan feasible?

- Yes - Proceed to Stage 5
- No - Stop development



Stage 5

Do members commit capital and business volume? Are resources available?

Yes - Begin operations

To see this and other USDA cooperative publications online, visit: <http://www.rurdev.usda.gov/rbs/pub/cooprpts.htm>
To order hard copies, e-mail: coopinfo@wdc.usda.gov
or telephone: 1-800-670-6553.

pledge sufficient capital in the business to demonstrate commitment to the cooperative's success. Exact amounts will depend on activity and lender requirements. Projected cash-flow schedules and financial statements from the business plan are important in determining capital needs and arranging for debt capital.

Hire a Manager

One of the most important duties of the board of directors is to hire a qualified manager who is responsible for day-to-day operations.

Hire Employees, Acquire Facilities, Begin Operations

The manager hires capable employees and advises the board on what facilities and equipment to acquire, within the budget and operation guidelines established by the board.

Important Factors for Cooperative Success

- Experience shows that a newly organized cooperative's chances for success can be improved by doing the following:
- ◆ Clearly identifying the economic need;
 - ◆ Reaching agreement on the cooperative's mission;
 - ◆ Developing good leadership;
 - ◆ Gaining the commitment of members to do business with the cooperative;
 - ◆ Following sound business practices.

Summary

A cooperative is a unique form of business used by people and businesses for their mutual benefit. Whatever its purpose, starting a cooperative requires considerable time, energy, and commitment by potential members to finance and use the business and select knowledgeable directors who will hire a competent manager. ■

Where to Get Help

The U.S. Department of Agriculture's Rural Development (RD) offices in some States have cooperative development specialists on staff who can help you. For additional information, contact USDA's Rural Business-Cooperative Programs in Washington, D.C. Its staff of professionals can help organize a new cooperative and provide technical assistance to existing cooperatives. Write to:

Rural Business-Cooperative Service

Stop 3254
Washington, DC 20250-3254
Phone (202) 720-3350
FAX (202) 690-2750,
Attention: CDD
<http://www.rurdev.usda.gov/cooperatives.html>

For more details, see the following USDA Rural Development publications:
How to Start a Cooperative, CIR 7
Cooperative Feasibility Guide, SR 58

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.

The U.S. Department of Agriculture (USDA) prohibits discrimination in all of its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Stop 9410, Washington, DC 20250-9410, or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal-relay). USDA is an equal opportunity provider and employer.