



# Understanding Cooperatives: How to **Start** a **Cooperative**

Cooperative Information Report 45, Section 14

United States  
Department of  
Agriculture

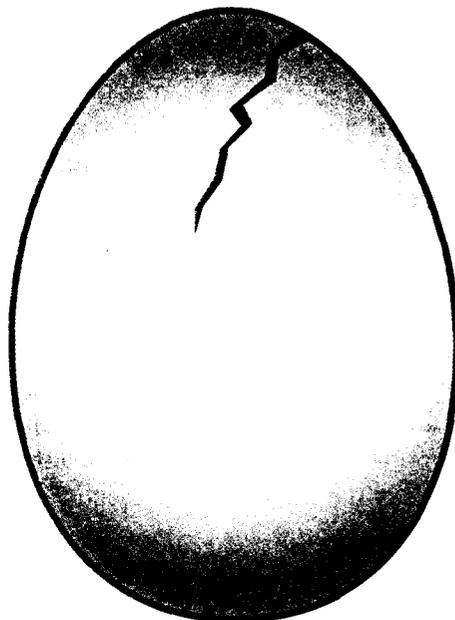
Rural Business  
and Cooperative  
Development  
Service

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**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.



## **STAGE 1**

IS THERE AN  
ECONOMIC NEED?

YES - PROCEED TO STAGE 2

NO - STOP COOPERATIVE  
DEVELOPMENT

**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 qualities of the 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



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

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 problem.
- 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.

*Select a Steering Committee*

Steering committee members should have 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 survey and a market analysis or supply analysis.

*Conduct a Member **Survey** and Market or Supply Analysis.*

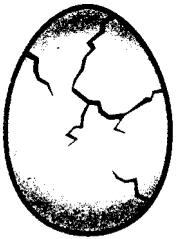
The steering committee must take steps to learn all it can about the cooperative's potential members and what the cooperative can do for them. The survey should explore four areas:

- ◆ **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.

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 Exploratory Meeting*

The exploratory meeting reviews results of the member survey and the market/ supply analysis. Based on the information presented, the participants vote to either continue or abandon the project. If they continue, the next step is to prepare a business plan and draft legal documents.

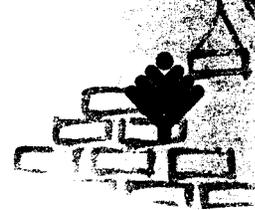


**STAGE 2**

CAN A COOPERATIVE OFFER A SOLUTION?

**YES- PROCEED TO STAGE 3**

**ONE-STOP COOPERATIVE DEVELOPMENT. CONSIDER OTHER ORGANIZATION STRUCTURE**



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

**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 defines the cooperative's operations and other structural issues before the cooperative organization is finalized.

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

**Third Exploratory Member Meeting**

At the third exploratory 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 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**

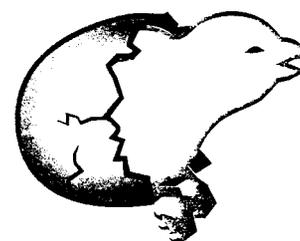
One of the most important duties of the board of directors is to hire a qualified manager who is responsible for day-to-day operations.



**STAGE 3**  
IS THERE MEMBER INTEREST?

3 YES - PROCEED TO STAGE 4

CI NO - STOP DEVELOPMENT



**STAGE 4**  
IS COOPERATIVE PLAN FEASIBLE?

CI YES - PROCEED TO STAGE 5

CI NO - STOP DEVELOPMENT



### **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 Economic and Community Development (RECD) offices in some States have cooperative development specialists on staff who can help you. For additional information, contact USDA's Rural Business and Cooperative Development Service/Cooperative Services, in Washington, D.C. Cooperative Services has a staff of professionals who can help organize a new cooperative and provide technical assistance to existing cooperatives. Write to:

### **Rural Business and Cooperative Development Service**

Cooperative Services  
Box 3250  
Washington, DC 20250-3250  
Phone (202) 720-3350  
FAX (202) 690-2750,  
Attention: CDD



### **STAGE 5**

DO MEMBERS COMMIT  
CAPITAL AND  
BUSINESS VOLUME?  
ARE RESOURCES  
AVAILABLE?

**YES - BEGIN  
OPERATIONS**

This circular is one in 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, in a form that can be readily adapted, with limited preparation time, to a lecture or other presentation.

For a complete listing of the series, write to RBCDS-Cooperative Services, U. S. Department of Agriculture, Education and Member Relations Program Area, Ag Box 3253, Washington, DC 20250.3253.

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