



United States Department of Agriculture

# How to Start a Cooperative



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\*Cooperative Information Report 7, How to Start a Cooperative, USDA: <http://www.rurdev.usda.gov/rbs/pub/cir7/cir7.pdf>

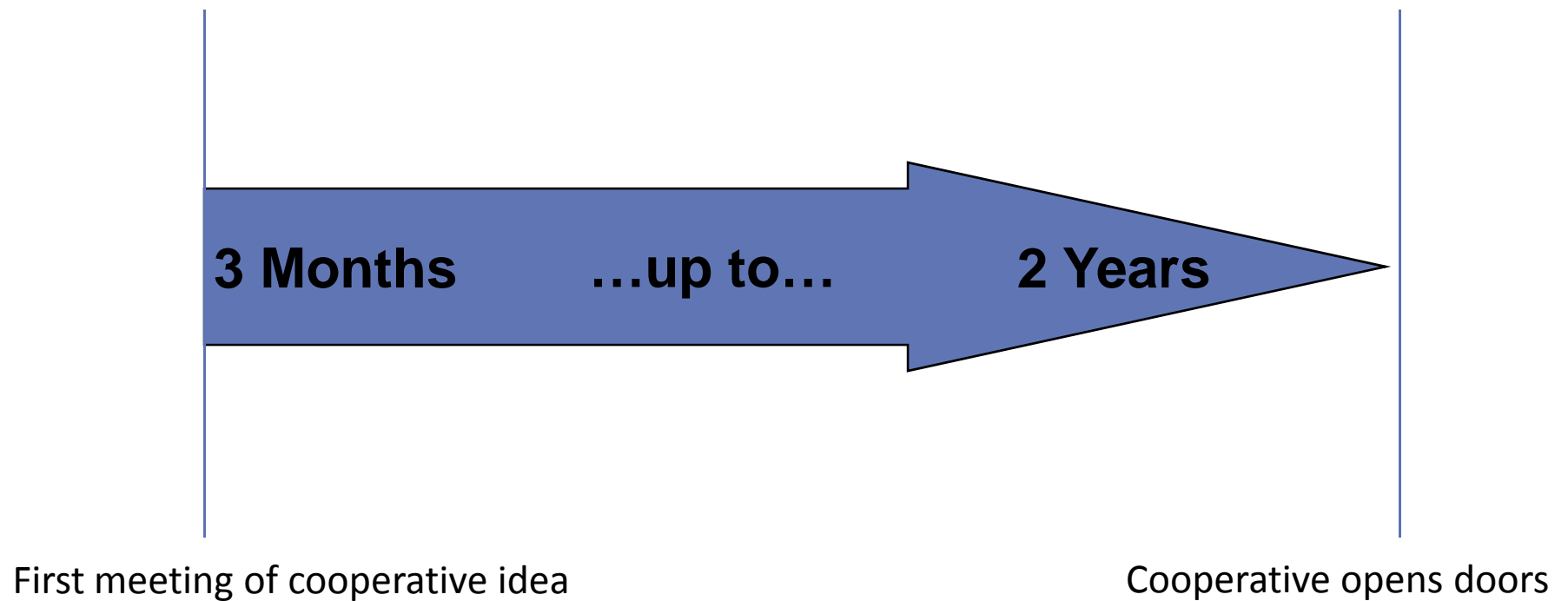


# Why Start a Cooperative?

- A compelling need and a few community leaders can spark the idea of forming a cooperative.
- Usually, these leaders have an economic need or desire a service they believe a cooperative can provide.
- They also know others who have similar interests.



# General Rule of Thumb Timeline





# Starting a Cooperative – Phases

- Phase I: Identify Economic Need
  - Steps 1 & 2
- Phase II: Deliberate
  - Steps 3 - 5
- Phase III: Implement
  - Steps 6 - 7
- Phase IV: Execute
  - Steps 8-12

The 12 steps described in this presentation are from ***How to Start a Cooperative***, CIR 7. In practice the sequence of steps often vary depending on the type of cooperative development project and wish of organizers.



# Phase I: Identify Economic Need

Step 1: Leaders meet to discuss issues and determine the economic need the cooperative might meet.

Development practitioners/advisors from outside the group should be contacted to help with the project if the leaders decide to continue.



# Use of Outside Advisors

- Outside advisors can greatly aid a group throughout the development process.
- Cooperative specialists or practitioners, consultants, technical advisors/industry analysts can help facilitate the process, help with market analysis, technical aspects (facilities, equipment), conduct feasibility studies, develop business plans, etc.
- Financial counsel can help with capital needs assessment and accumulation of capital.
- Legal counsel can assist with drawing up the legal documents and filing incorporation papers with State.



# Phase I: Identify Economic Need

Step 2: Invite potential member-users to a meeting to decide if interest is sufficient to support a cooperative.

- A steering committee should be selected if group votes or decides to continue the process.\*

\*Decisions whether to proceed with the development project will be made often throughout the process and various steps taken (this is further explained in the How to Start a Cooperative report). If the group decides NOT to proceed during any step, the process ends.





## Phase II: Deliberate

Step 3: Survey potential members. Conduct a member-use analysis and initial market analysis.

Collects information on prospective members' needs, anticipated business volume, location and business or service characteristics of prospective members, opinions of prospective members, variety of products or services needed, etc.

Present results to potential members; vote on whether to proceed.

(Use of an outside advisor is especially useful in this step)



# Phase II: Deliberate

## Step 4: Conduct a Feasibility Study.

A feasibility study is an important analytical tool to show how a business will operate within the proposed cooperative's industry.

Based on well-determined assumptions, researched information, and the member-use and market analysis.

### **Key actions:**

- Decide who will conduct the study
- Develop sound and realistic project assumptions
- Determine components for a comprehensive study
- Assess the study
- Accept or reject the study
- Vote on whether to proceed



## Phase II: Deliberate

### Step 5: Prepare a Business Plan.

Feasibility study acts as the foundation of this plan. The Business Plan provides a plan of action and specifics on how the cooperative business will operate.

Go over plan in detail, adjust, and finalize.



# Phase III: Implement

## Step 6: Employ Legal Council for Legal Papers.

Articles of incorporation state the purpose of the cooperative business and give distinct legal standing. Bylaws state how the cooperative will conduct business and are consistent with both State statutes and the articles of incorporation.

Other legal documents include the membership application, membership or stock certificate, marketing/purchasing agreements, revolving fund certificate, and meeting notices and waivers of notice.

Review all legal documents and the final business plan and decide whether to file articles of incorporation.



# Phase III: Implement

## Step 7: Hold First Meeting of the Cooperative.

The goal of this meeting is to approve the finalized bylaws, discuss the implementation of the business plan, and elect the first Board of Directors (members of the first board of directors are sometimes named in the articles of incorporation; if not, elect).

It is important to have a good turnout of members at this meeting.



# Phase IV: Execute

## Step 8: Convene First Meeting of Board of Directors.

New directors elect officers per the bylaws, appoint committees, and with a well-defined agenda, discuss other important action items.

Board action items:

- Membership drive
- Membership application or stock subscription.
- Acquisition of capital
- Bank selection
- Initiate hiring of management (necessary qualifications)
- Authorize officers/employees to handle funds
- Provide for bookkeeping and accounting services
- Printing of articles, bylaws and member documents for distribution
- Choose a business location (if not already selected) and seek bids for equipment and facilities



# Phase IV: Execute

## Step 9: Hold a Membership Drive.

Necessary when the new cooperative needs more members than those who had shown commitment and taken part in early meetings.

Arrange informal meetings and communicate the vision and goals of the new cooperative and how it will benefit members.

*While many members may already be committed, the cooperative may seek other potential members to ensure there is enough for a successful business.*



# Phase IV: Execute

## Step 10: Acquire Capital.

The board of directors needs to arrange for adequate capital to finance the new cooperative's start-up operations.

Most often raised from members purchasing stock (equity) and borrowing funds (debt) from a lending institution.

The projected cash-flow analysis and financial statements from the feasibility study & business plan clarify the capital needs.

Members need to have "skin in the game" (an equity investment) for the cooperative to prosper.

*Sources of capital for the new cooperative is often: membership stock shares, member and outside equity contributions, loans, grants, etc.*





# Phase IV: Execute

## Step 11: Hire Manager.

This person will be responsible for the day-to-day operations of the cooperative.

The manager will then execute the business plan.

This person should have business accumen and experience and fully understand what a cooperative is and how they are governed and function.



## Phase IV: Execute

### Step 12: Acquire Equipment and Facilities, Open Doors.

The manager and board together determine what location, facilities and equipment are needed and then acquires (or rents) them.

The business plan often provides the blueprint for this step so it serves as the guide.



# General Rules for Success

- Use advisors and committees effectively
- Maintain good board-manager relations
- Conduct businesslike meetings
- Follow sound business practices
- Forge links with other cooperatives and cooperative associations



# Potential Pitfalls

- Lack of clearly identified mission
- Inadequate planning
- Failure to use experienced advisors and consultants
- Lack of member leadership
- Lack of member commitment
- Lack of competent management
- Failure to identify and minimize risks
- Poor assumptions
- Lack of adequate financing
- Inadequate communications



# Summary

- Developing a cooperative organization is a complex process that will involve a number of steps. The precise sequence of steps will be dependent on the type and scope of the cooperative project.
- Outside advisors often play an important role in many aspects of the process, but strong leadership from within the group of potential members is imperative throughout the entire process.
- Realistic assumptions and accurate information leading to realistic projections are critical in the decision-making stages.
- There must be a critical mass of loyal members willing to make a personal, business, and financial commitment to the cooperative.
- All potential members, advisors, and partnering organizations involved in the development of the cooperative must have a thorough understanding of the unique principles and practices of a cooperative organization and support them.



# More Information

- ***How to Start a Cooperative*** (USDA Cooperative Information Report 7)
- ***Creating Co-op Fever: A Rural Developer's Guide to Forming Cooperatives*** (USDA Service Report 54)
- ***Vital Steps: Cooperative Feasibility Study Guide*** (USDA Service Report 58)
- ***Sample Legal Documents for Cooperatives*** (USDA Cooperative Information Report 40)
- ***Co-ops 101*** (USDA Cooperative Information Report 55)
- ***Co-op Essentials: What They Are and the Role of Members, Directors, Managers, and Employees*** (USDA Cooperative Information Report 11)
- And other USDA cooperative publications and materials found at: <http://www.rd.usda.gov/publications/publications-cooperatives>
- USDA Cooperative Programs: <http://www.rd.usda.gov/programs-services/cooperatives>
- Madison Principles—professional standards for developers: <http://www.cooperationworks.coop>