
Cooperatives 101

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What is a cooperative?

■ **Definition**

- A cooperative is an enterprise that is jointly-owned jointly and democratically-governed by a group of people for the purpose of meeting their common economic, social and cultural needs and aspirations.



What's the difference between co-ops and conventional enterprises?

- Stakeholders vs. stockholders
- Service objective vs. profit objective
- Internationally accepted guiding principles and values vs. no common principles or values
- Only legal form of corporation designed to support multiple objectives

“who owns it, who controls it, who benefits from it . . .”

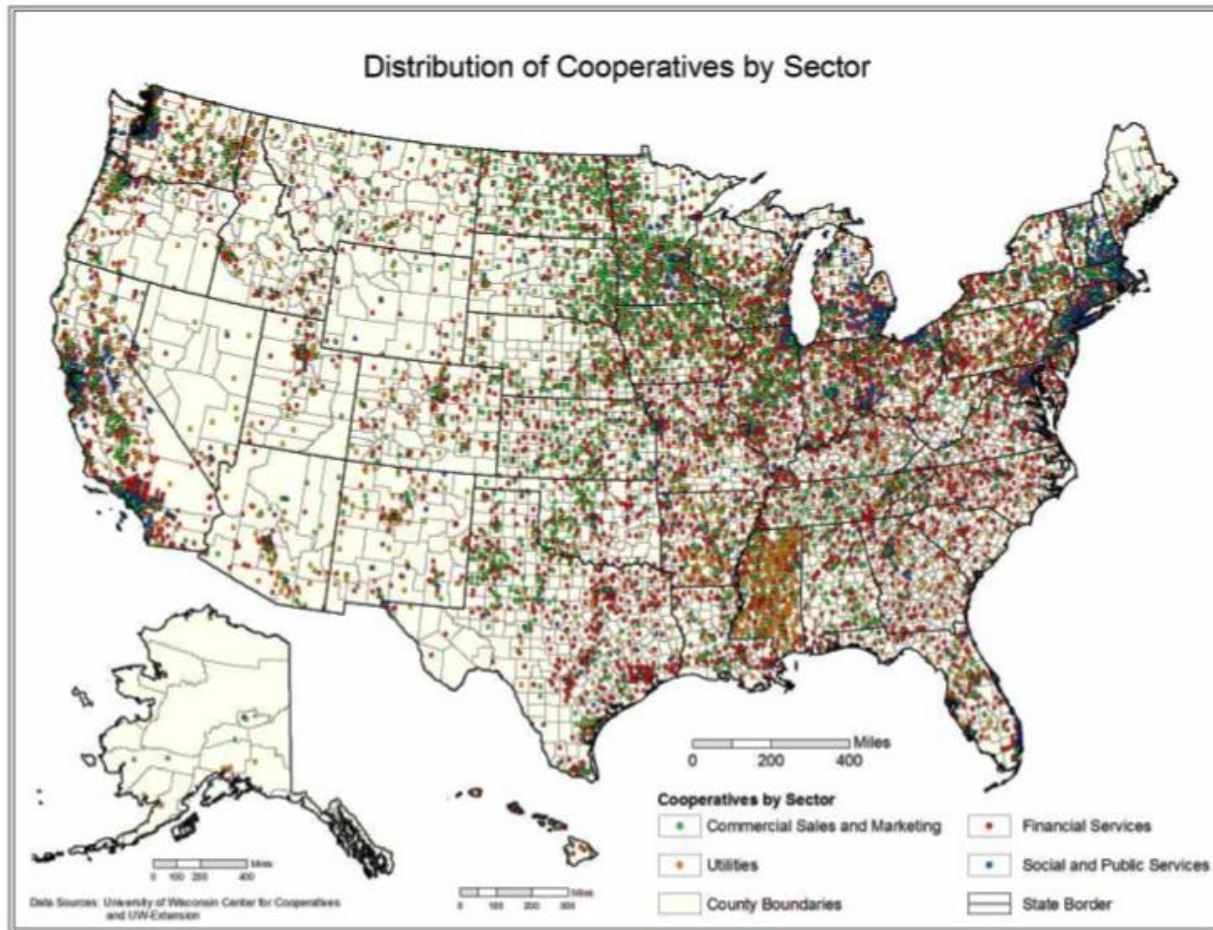
Different kinds of cooperatives

- Consumer
 - Worker/Employee
 - Producer
 - Business/Shared Services
 - Housing
 - Utilities
 - Secondary
 - Multi-Stakeholder
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Different Purposes

- Purchasing
 - Marketing
 - Value-added Production
 - Job Creation
 - Community Asset Control
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Distribution of U.S. Cooperatives



Co-op Statistics

- Co-ops range in size from Fortune 500 companies to small local storefronts
 - More than 30 cooperatives have annual revenue in excess of \$1 billion. The top 100 co-ops have combined revenue of about \$150 billion
 - There are more than 72,000 cooperatives in the U.S. with over \$650 billion in revenue and providing over 2 million jobs
 - About 30% of farmers' products in the U.S. are marketed through over 3,000 co-ops
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More Co-op Statistics

- Approximately 900 rural electric co-ops own and maintain nearly half of the electric lines in the U.S. covering 75% of the land mass and providing electricity to 37 million people.
 - 250 purchasing co-ops offer shared services to more than 50,000 businesses, a figure that has doubled in the last 10 years
 - Nearly 30,000 U.S. credit unions have 91 million members and assets in excess of \$760 billion
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Co-ops Worldwide

The International Cooperative Alliance (1895) has:

- **230 member organizations**
- **Representing 92 countries**
- **800 million people**
- **Co-ops create 100 million jobs worldwide (20% more than multinationals)**

In 1994 the United Nations estimated that the livelihood of nearly 3 billion people or half the world's population, was made secure by cooperative enterprise

Co-ops Worldwide

- In Columbia 11% population are member of cooperatives
 - Kenya 20%
 - United States, Malaysia 25%
 - Norway, Honduras, Iran 33%
 - Canada, New Zealand 40%
 - Singapore 50%
 - Quebec 70%
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Co-op Worldwide

- **Finland 62% of households are members of consumer cooperatives**
 - **Canadian co-ops produce 32% of worlds' maple sugar production**
 - **Cyprus 30% of banking transactions**
 - **91% of Japanese farmers are members of cooperatives**
 - **Co-ops generate 45% of Kenya's GDP**
 - **In Brazil co-ops are responsible for 40% of agricultural GDP**
 - **Denmark co-op represent 37% of retail trade**
 - **Kuwait co-op handle 70% of retail trade**
 - **Belgium close to 20% of pharmacy transactions are handled by cooperatives**
 - **Norway 99% of milk production is done by cooperatives**
 - **In East Timor, coffee cooperatives are the largest private sector employer**
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Cooperative Principles

- Voluntary and open membership
 - Democratic member control
 - Member economic participation
 - Autonomy and independence
 - Education, training and information
 - Cooperation among cooperatives
 - Concern for community
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Cooperative Values

- Self-help
 - Self-responsibility
 - Democracy
 - Equality
 - Equity
 - Solidarity
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Some Familiar Co-op Names

- Ocean Spray
 - Land O'Lakes
 - Associated Press
 - Sunkist
 - ACE Hardware
 - REI
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Packers Share Certificate

No. 2515 1 Shares

GREEN BAY PACKERS INCORPORATED

INCORPORATED UNDER THE LAWS OF THE STATE OF WISCONSIN

This Certifies that James P. Lenfestey is the owner of
1 Shares of the No Par Value Capital Stock of
THE GREEN BAY PACKERS, INC.

transferable on the books of the Corporation in person or by duly authorized Attorney upon surrender of this certificate properly endorsed, but only to persons permitted to hold stock according to the regulations of the Corporation.

The Holder hereof understands and agrees:

That no dividend shall ever be paid on said stock, nor is the stock assessable;
That if the Corporation is dissolved all the assets shall go to Sullivan-Wallen Post No. 11 of the American Legion for the purpose of creating a soldiers' memorial.

In Witness Whereof, the said Corporation has caused this Certificate to be signed by its duly authorized officers and sealed with the Seal of the Corporation

this 19th day of December, 1985

[Signature] [Signature]

Distinguishing Features of Co-ops

- Ownership
 - Governance
 - More complex set of values, obligations
 - Flexibility
 - Not distinguished by industry, sector, management style, demographics, or location
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Cooperatives as Tools for Community Economic Development

- Spread wealth and ownership opportunities
 - Community capital retention – expand local ownership and control
 - Create and retain jobs
 - Support home-based or small scale business
 - Create and support market for alternative products
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Cooperatives as Tools for Community Economic Development

- Tool for self-help to meet self identified needs and aspirations
 - Bring together different people together in common pursuit (civic benefit)
 - Opportunity for human and social capital development as well as financial
 - Structure for reaching your highest common denominator (or your lowest)
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Advantages of the Cooperative Model as a Community Development Tool

- Member controlled and member responsive vehicle for self help
 - Flexible and creative -- can support multiple objectives
 - Community role is institutionalized
 - Amazingly tenacious
 - May ask the most in the short term, but gives the most in the long
 - People like and trust them
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Disadvantages of the Cooperative Model as a Community Development Tool

- Democracy is not easy
 - Need constant communication with members/employees to keep everyone on board
 - Chronically undercapitalized
 - Struggle with issues of management, leadership and compensation
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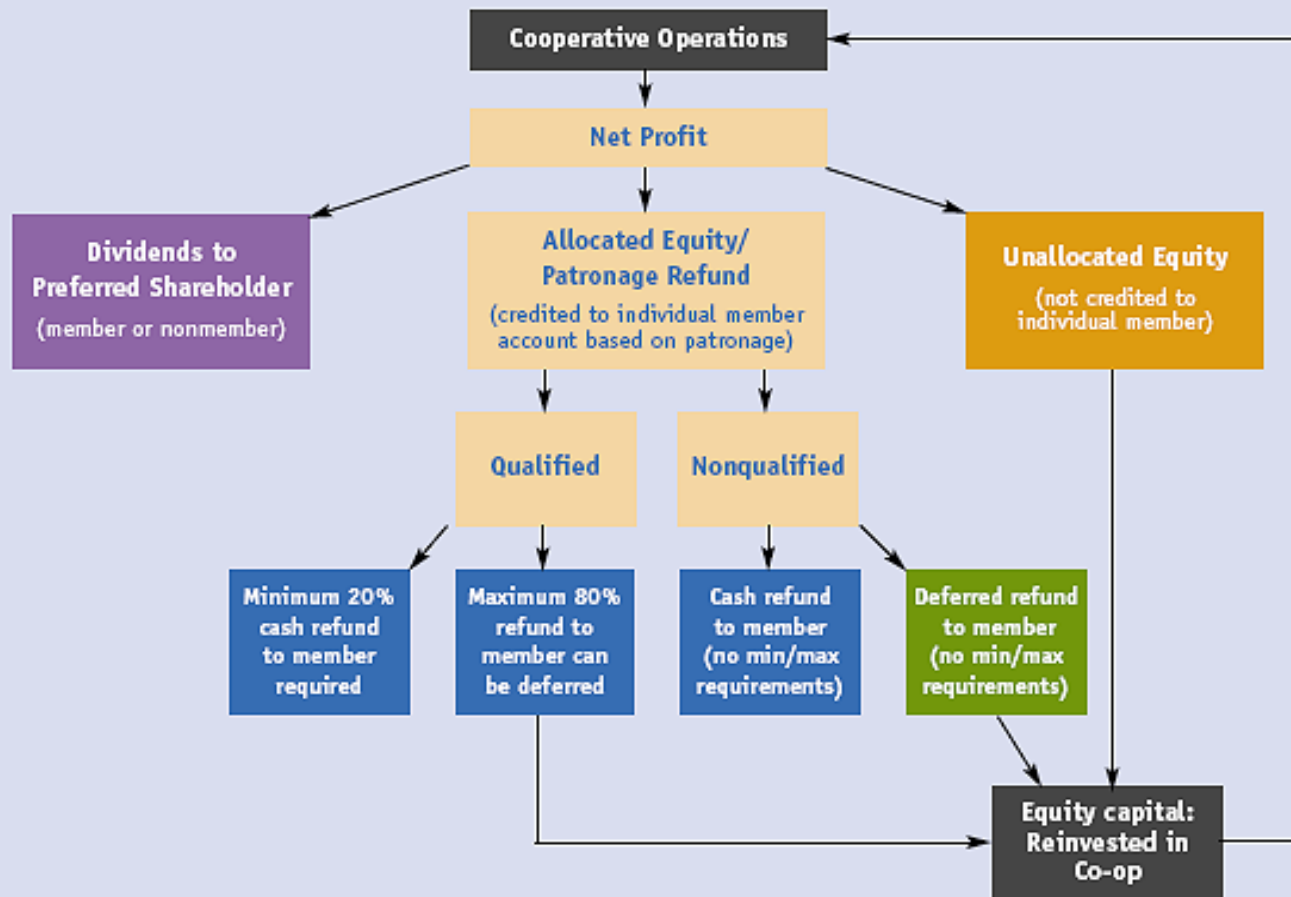
Common Pitfalls

- Market – need a clear and compelling common purpose
 - Management – it's a business
 - Money – lack of appropriate financing
 - **Governance-**
 - Indecisive
 - Entrepreneurial vision is lacking
 - Lose sight of common purpose
 - High jacked for individual gain
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Sources of Cooperative Equity

- Common Stock (members)
 - Preferred Stock (members or non-members)
 - Earnings
 - Allocated
 - Unallocated – retained earnings
 - Per-unit retains
 - Investor members
 - Grants etc.
 - Partnerships
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Cooperative Net Profit Distribution



Both co-op and recipient pay tax

Member pays any required tax

Co-op pays tax. Upon future distribution to member, member pays any required tax, and co-op receives tax credit

Co-op pays tax

How Much Equity Do You Need?

Depends on:

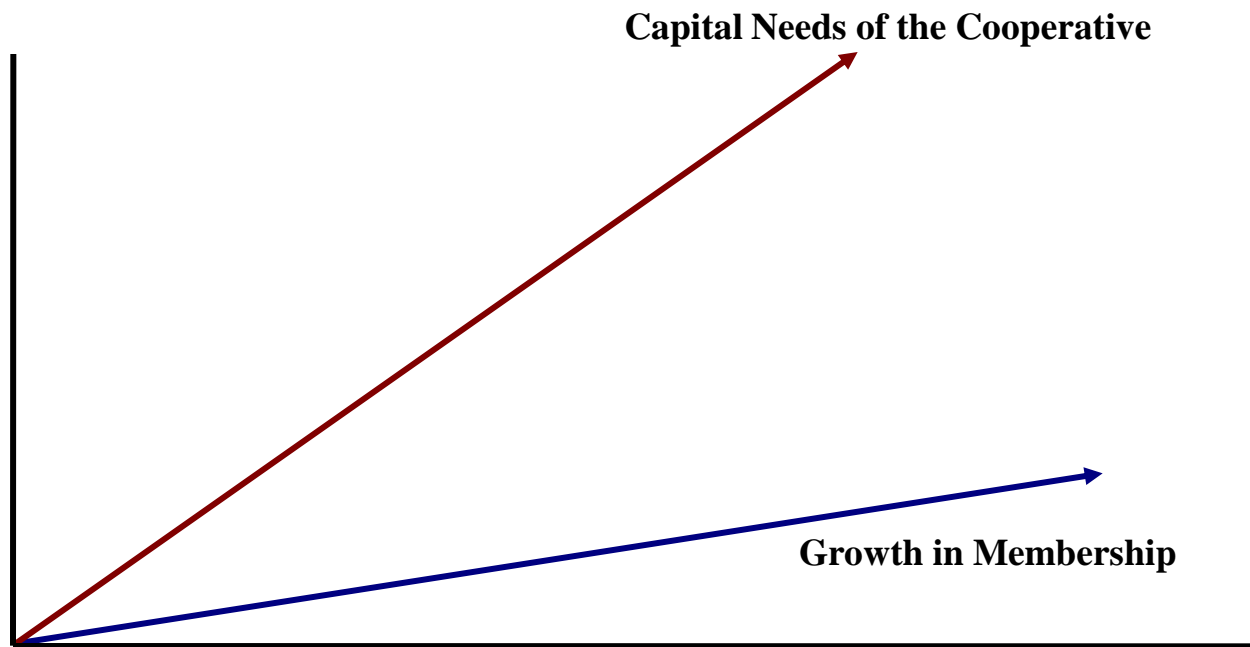
- Capital nature of the business, assets needed
 - Industry practices, cycles
 - Lender/partner tolerance for risk
 - Purpose of co-op, preferences of members
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Questions to ponder in creating a equity structure . .

- Is business large or small? What are the desires/prospects for growth?
- Is it labor or capital intensive?
- How much working capital in inventory/seasonal business?
- Member turnover 1:1 or is base growing or shrinking?
- Relationship of growth in members to grown in company ?
- How is equity to be repatriated? 5 -7 years? Retirement? Later?
- What is the acceptable horizon of your members?
- What is the acceptable horizon for investors?
- What future capital needs can be anticipated? Members and the co-op?
- What would you like to happen upon dissolution??

Poor or inflexible decisions in these areas can lead to an unstable co-op

An Unstable Co-op Equity Situation



Should we Organize a Co-op?

Who Really Cares?

What Do You Want To Do?

Democracy is not easy



*"We can't come to an agreement about how to fix your car, Mr. Simons.
Sometimes that's the way things happen in a democracy."*

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