

Co-op 101: A Guide to Starting a Cooperative



Cooperative Development Institute
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www.cdi.coop
Serving New England and rural New York State

What's Inside:

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5. Starting a Cooperative: The Development Stages
6. Keys to Successful Cooperative Development
7. Cooperatives of the Northeast

COOPERATIVE DEVELOPMENT INSTITUTE, INC.

1 Sugarloaf Street, 1st Floor ♦ South Deerfield, MA 01373 ♦ Ph/Fax: 413-665-1271/1275

Greetings from the Cooperative Development Institute. Our mission is to increase economic opportunities and benefits for people in the Northeast by fostering the growth and success of all types of cooperative enterprises.

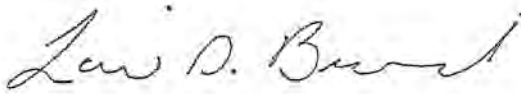
CDI assists individuals and organizations with building cooperatives in Vermont, New Hampshire, Maine, Rhode Island, Connecticut, Massachusetts and New York.

Through innovative research and development efforts, CDI has helped to establish new cooperatives, identify new opportunities, develop new partnerships, create new solutions to pressing problems, educate the cooperative community about the power of development and raise the general public's awareness of the value cooperatives bring to members and their communities.

Following is a *Coop 101 Start-Up Packet*, a comprehensive set of materials about cooperatives and the start-up process. Please review the packet materials and complete the enclosed *Request for Assistance Questionnaire* shown on the left menu of CDI's homepage. Completing this form will help us determine how we can best support you in your venture.

Please feel free to call us with any questions or concerns and we will be happy to assist you. Wishing you the best of luck with your endeavors...

Sincerely,



Laurie Siggillino Broussard
Cooperative Development Institute

BUILDING COOPERATIVE LEADERSHIP AND ENTERPRISE IN THE NORTHEAST
www.cdi.coop ♦ info@cdi.coop

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**Contact us to receive a CDI Co-op
Start-Up Packet that includes:**

- How to Start A Cooperative Workbook
- Guidelines for Co-op Development
- Request for Assistance Form

Cooperative enterprises meet people's needs for food, housing, health and home care, energy, meaningful and stable employment opportunities, and other basics. They enable farmers, fishermen, artists, trades people and other independent entrepreneurs to own successful businesses. Co-ops recycle capital locally and generate quality, stable jobs.

**For a free consultation or more
information, please contact us at:**

**877-NE COOPS
413-665-1271
info@cdi.coop
www.cdi.coop**

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CDI

**COOPERATIVE
DEVELOPMENT
INSTITUTE**

INFO@CDI.COOP
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**We help new and established
cooperatives and other
group-based businesses
get going and
keep on growing.**

A cooperative enterprise is owned and controlled by its members—the individuals, workers, municipalities, institutions or businesses that use its services.

If you are a new or potential co-op or other group-based business (GBB):

CDI can help you:

- Determine the best structure for your group
- Research resources available to help
- Start a cooperative or GBB by providing technical assistance
- Provide ongoing workshops, trainings, and support materials

“CDI was able to provide much-needed administrative and logistical support as well as valuable funding contacts for our start-up operation.”

If you are an established co-op or GBB:

CDI can provide:

- Board development and training
- Manager education and support
- Assistance in expansion, relocation, diversification
- Access to a co-op leadership network
- Information about basic co-op business practices
- Assistance with conflict resolution

“There are few professionals in our area who understand cooperatives. CDI helped us find the person who knew what to do and how to do it.”

About Cooperative Development Institute

The Cooperative Development Institute (CDI) has been helping all types of cooperatives and other group-based businesses since 1993.

We can assist you with any aspect of your group's development, whether you are a

- Agricultural, fishing or forestry producer
- Consumer-owned food store
- Co-housing association
- Fuel, electricity, or telecommunications cooperative
- Community mercantile association
- Purchasing group
- Worker-owned business
- Manufacturers' alliance
- Artists' collective
- ...Or any other group-based business.



CDI serves cooperative businesses and farmers in New England and New York.

The CDI web site offers a wealth of stories, valuable contacts, background information and other resources for anyone interested in cooperatives and other group-based businesses. **www.cdi.coop**

CDI fully supports the following statement of values and principles adopted by the International Cooperative Alliance (ICA):

1st Principle:

Voluntary and Open Membership

2nd Principle:

Democratic Member Control

3rd Principle:

Member Economic Participation

4th Principle:

Autonomy and Independence

5th Principle:

Education, Training and Information

6th Principle:

Cooperation among Cooperatives

7th Principle:

Concern for Community

CDI's core values are:

1. The Process: Cooperation, Community, and a Willingness to Listen

Many have found support in joining co-ops, where isolation gives way to community, competition gives way to cooperation, and each one's voice is heard and valued.

2. The Form: Cooperative Economics

Cooperative economics emphasize the common good and the value of each member. All share in the triumphs and successes. All shoulder the responsibilities.

3. The Outcome: Sustainable Community Development

Cooperatives strengthen the bonds of community life. Cooperatives help to stabilize the local economy by ensuring that profits return to those who produced them.

International Cooperative Principles

Definition

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned democratically controlled enterprise.

Values

Cooperatives are based on the value of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

1. Voluntary and Open Membership — Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political religious discrimination.

2. Democratic Member Control — Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.

3. Member Economic Participation — Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence — Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training and Information — Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of cooperation.

6. Cooperation among Cooperatives — Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community — While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

An Overview of Cooperative Development

Cooperatives are:

- User-owned – People who own and finance the cooperative are those that use the cooperative.
- User-controlled – The people who control the cooperative are those that use the cooperative.
- Benefits return to users – The cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

So your first job is to decide who are the members and what benefits do they want from this cooperative.

Co-ops are owned by:

- Consumers
- Producers/farmers
- Workers
- Businesses/organizations
- Municipal/government
- Other co-ops

Cooperatives bring the following types of benefits to their members:

- **Consumer co-ops** – provide products and services for their retail members
- **Purchasing co-ops** – purchase products and services in bulk to reduce or share costs
- **Marketing co-ops** – build markets for members' products and services, improve member bargaining power, facilitate delivery of product to market, and improve product quality
- **Value-added Processing Co-ops** – add value to members' products to increase members' share of retail mark-ups
- **Worker co-ops** – provide jobs for their members and services for their communities

Four Reasons Why You Might Want to Start a Co-op:

- Cooperatives exist to meet their members' needs. Their focus is on service to members not on bringing a return to investors.
- Cooperative members are not penalized for working together in a cooperative business under US Tax Code; therefore many cooperatives enjoy tax advantages.
- Cooperatives are owned and controlled by their members. They help keep resources in the members' community and are guided by members' values.
- Decisions made democratically by the membership provide a strong direction that is supported across the organization.
- Profits are returned to members so members benefit from the business they do with the cooperative.
- Cooperatives contribute to the economic stability of their communities.

Four Reasons Why you might Want to Think Twice Before Starting a Coop:

- Sometimes cooperatives have difficulty gaining access to the capital they need without being able to bring on investors who have a seat on the board.
- Cooperatives need to invest time and money in supporting their democratic process – educating members about key issues, holding meetings, and responding to member concerns. This can be expensive and time consuming.
- Sometimes there are legal limits to the scope of operations or membership for a cooperative.
- Cooperatives are only as good as their members ask them to be. When members stop investing time and energy, cooperatives can reduce the benefits they provide to their members.

Legal Structure:

There are two paths to becoming a coop:

Incorporate under a co-op statute in any state OR

Incorporate as a corporation and adopt cooperative bylaws.

Limited Liability Corporations (LLCs) also operate cooperatively but are not technically cooperatives.

The Co-op Development Process:

- Minimum 40 hours of board meetings and 12-18 months
- Members? Needs? Vision? Values? Strategy?
- Create founding board
- Invest dollars for pre-development
- Conduct feasibility study
- Incorporate and adopt bylaws
- Create business plan
- Sign membership agreements
- Make equity investments
- Get financing
- Hire manager
- Open for business

General Guidelines for Success:

- Keep your focus
- Keep members informed and involved
- Build strong member leadership and commitment
- Set realistic goals and assumptions
- Conduct businesslike meetings
- Follow sound business practices
- Base decisions on market research rather than opinions
- Create a comprehensive business plan

- Use advisors and committees effectively
- Forge links with other cooperatives
- Identify and minimize risks
- Maintain honest, open communications
- Invest in member, board and staff education
- Hire competent management
- Raise sufficient capital
- Establish a realistic market entry strategy
- Make sure you have enough product to sell to a large enough market to make money

Developing your Cooperative Articles of Incorporation, By-Laws, and Membership Agreements:

Answer these questions before you consult with an attorney to help you design your legal documents.

Building Shared Vision, Mission, Values and Strategy:

- Who are the members of this cooperative? What needs of there is the cooperative designed to meet?
- List the assumptions you hold.
- Identify the blocks for moving forward.
- List the core values/principles that guide the cooperative.
- How do you want the world to be different because the cooperative exists?
- What is the vision you hold for this cooperative?
- What do you want the cooperative to accomplish? What is its mission?
- Who will serve as the start-up board of directors, overseeing the development activities?

Membership:

- Who is eligible for membership?
- What equity will members contribute?
- Will members each have one vote? Or will there be weighed voting?
- Are there financial obligations for voting?
- Are all members treated the same? Or are there classes of members?
- How can a member terminate his/her membership? How can the coop terminate a member's membership?

Board:

- Who is eligible to serve on the board?
- What are their duties?
- How many seats should there be?
- Will you have board member from outside the organization?
- How long will a board member serve?
- How are board members elected? Removed?
- Are they paid? Are expenses reimbursed?

- How will vacancies be filled?
- How often will the board meet? What quorum is required? What meeting notice is required?
- Will there be standing committees of the board? If yes, what are they and what are the functions?
- Will there be officers? If yes, what offices, terms, duties, selection process?

Capital Structure:

- What will your capital structure be? (Will you issue shares of stock? Membership/Common? Preferred? How many? At what value?)
- What are the rights and responsibilities of each stockholder?
- Will shares earn dividends?
- What will the redemption procedure be?

Patronage Dividends:

- What is the basis for distributing patronage dividends to members?

Membership Meetings:

- How often will members meet? Who can call a special meeting? What notice is required? What quorum is required?
- What issues will members decide?
- How can members vote? By proxy, by mail, electronically?
- How will the by-laws be amended?

Membership Agreements:

- What will members receive?
- What will members agree to give?
- How will money change hands?
- How will quality be evaluated?
- How will the agreement be enforced?
- How will the agreement be terminated/renewed?

Starting a Cooperative *Development Stages*

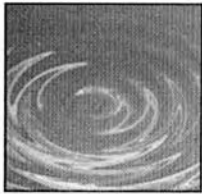
ACTIVITIES	SUPPORT AVAILABLE FROM CDI	OUTCOMES
Stage ONE: Exploration (3 –6 months)		
<p>Explore your new business idea.</p> <ol style="list-style-type: none"> 1. Organizational Development: Form an Organizing Committee with people who represent the cooperative's potential members. Identify your mission and core values. 2. Business Development: Define your key business concept – What products and services might the co-op supply that could make a significant economic difference in the lives of its members? Create a project development plan and budget. Secure funds for stage one and begin fundraising for stage two. 3. Business Planning: Conduct Market Research to determine the need for your cooperative's products and services and complete your feasibility analysis to see if you have a viable business idea. 4. Member Development: Share information with potential members about your business idea. 	<p>CDI can . . .</p> <ol style="list-style-type: none"> 1. help you put together your Organizing Committee and facilitate a meeting where you define your mission and values; 2. help you define your key business concept, facilitate project planning sessions, and help you raise funds to support your development project; 3. help you do your market research and feasibility analysis or help you hire a consultant to assist you; 4. help you create print resources for potential members informing them about your project; and 5. share lessons learned by other projects and provide sample project plans, market research, feasibility analysis, and member education materials. 	<p>At the end of Stage One, you'll have...</p> <ul style="list-style-type: none"> • a committed group of people who agree on what they want this business to sell to whom, • market research that shows there is a large enough market and sufficient product to sell that the cooperative will be financially viable and make a significant economic contribution to its members, • a clear plan and budget for each stage of development, • funds raised to cover the cost of development for Stage One and some of Stage Two • growing interest from potential cooperative members
Stage TWO: Business Planning (3 –6 months)		
<ol style="list-style-type: none"> 1. Business Planning: Create a Business Plan and Marketing Plan that describes how you will launch your business, what it will cost, and where you'll get the money. 2. Organizational Development: Set up your Founding Board, incorporate your cooperative, and adopt Bylaws that describe how you will work together. 3. Member Development: Recruit members for your cooperative. 4. Business Development: Secure development funds for Stage Two and Three. Raise money (equity) from members and get a loan to launch your business. 	<p>CDI can . . .</p> <ol style="list-style-type: none"> 1. help you create your Business Plan and Marketing Plan or hire a consultant to assist you; 2. help you train your founding board and create your legal documents and hire a lawyer to review them; 3. help you reach out to potential members; and 4. share lessons learned by other projects and provide sample business plans, board policies, and legal documents. 	<p>At the end of Stage Two, you'll have ...</p> <ul style="list-style-type: none"> • a Business Plan and Marketing Plan showing how the cooperative will be launched, • enough members and money to launch your cooperative, • a legally incorporated cooperative with a seated board, and • funds raised to cover the costs of development for Stage Two.

ACTIVITIES	SUPPORT AVAILABLE FROM CDI	OUTCOMES
Stage THREE: Cooperative Launch (2-6 months)		
<ol style="list-style-type: none"> 1. Organizational Development: Set up office and hire staff. 2. Business Development: Contract for and market products and services. Pre-sell members and/or customers products and services. 3. Member Development: Orient new members to their roles and responsibilities. 	<p>CDI can . . .</p> <ol style="list-style-type: none"> 1. provide start-up accounting, communications, and support staffing; 2. provide management, staff, member and board training programs, 5. share lessons learned by other projects in Stage Three, and 6. provide sample marketing materials, member orientation materials, job descriptions and personnel handbooks. 	<p>At the end of Stage Three, you'll have...</p> <ul style="list-style-type: none"> • Initial products and services ready to offer, • an office set up and staffed • Customers signed up for products and services • Members educated about their rights and responsibilities as co-op members
Stage Four: In Business		
<ol style="list-style-type: none"> 1. Business Development: Provide products and services in response to member needs, engage in sales and marketing and ongoing business development. 2. Organizational Development: Provide staff and management education and engage in strategic planning 3. Member Development: Engage in member and board education 4. Celebration: Take time to acknowledge your accomplishments! 	<p>CDI can . . .</p> <ol style="list-style-type: none"> 1. provide ongoing support until the cooperative starts earning a profit 2. celebrate with you, and 3. help you connect with other cooperatives through Cooperative Life, the Northeast Federation of Cooperatives. 	<p>At the end of Stage Four, you'll have...</p> <ul style="list-style-type: none"> • A viable business, up and running, bringing economic benefit to its members.

Keys to Successful Cooperative Development

The project starts with: →A compelling need →A strong champion →A clear vision →A good business idea	Project planning includes: →Thorough market understanding →Honest market research →Effective business plan →Due diligence →Exit strategy →A conscious transition from development to operation
Founding members are: →Committed to the project →Motivated by a common vision →Flexible thinkers	The project has: →Strong management →Bylaws that spell it out →Fortuitous timing →Adequate human resources →The ability to learn from failure →A commitment to continuous communication with members, board, management and consultants. →A commitment to education and training →Quick buy-in and the ability to build on success →A skilled co-op development facilitator
The founding board has: →Business acumen →A diversity of skills →Integrity →Interested in the most viable business possible →Commitment to the project →The ability to govern the co-op	
From a financial perspective, the project has: →Adequate capitalization →Early member financial commitment →Financial feasibility →A commitment to use money wisely →Adequate financial resources	

Cooperatives of the Northeast



LOCATION: *New England and New York*

POPULATION: *Approximately 39 million*

COOPERATIVE MEMBERS: *Approximately 10 million*

TOTAL COOPERATIVES: *Approximately 10,000*

AGRICULTURE —
marketing, supply and
service cooperatives
• 162 cooperatives
• 82,000 members
• \$5 Billion annual sales
Well-known name brands
— Ocean Spray, Welch,
Cabot, Agway

FINANCE —
CREDIT UNIONS
• 1,400 credit unions
• 7,800,000 members
• \$50 billion in assets
The U.S. credit union
movement began in New
England and was founded
by Edward Filene of
department store fame.
The first U.S. credit union
was St. Mary's in
Manchester, NH. Credit
unions are the most solvent
sector of the U.S. consumer
financial system, offering
access to low cost
financial services.

FINANCE —
FARM CREDIT SYSTEM
• 4 local agricultural credit
association offices
• 20,000 farmer members
• 250 cooperative
members
The farm credit system
provides 50% of total
credit to Northeast
agriculture.

CONSUMER FOOD
• 60 retail cooperatives
• 1,500 pre-order co-ops
• 100,000 members
• Northeast Cooperatives
— wholesaler owned by
member cooperatives
• \$100 million annual
sales
Started as natural foods
only, but are increasingly
full-service grocery stores.

UTILITY AND ENERGY
• 11 electric cooperatives
• 128,000 members
• \$160 million annual
sales
• 5 new energy co-ops
• Water utilities in at least
20 communities are
cooperatively owned

The Northeast has the
fewest electric co-ops of
any region in the country.
Utility deregulation now
offers incredible opportuni-
ties for new energy co-op
formation.

**EMPLOYEE/WORKER
CO-OPS**
• 55 firms
• 4300 member workers
• \$500 million annual
sales

These totals do not include
the 2.1 million workers
involved in 1100 ESOP
companies (Employee
Stock Ownership Plans) in
the Northeast.

HOUSING
• More than 600,000 units
• 90% of Northeast
housing co-ops are in
New York
• More than 50% of all
housing co-ops in the
U.S. are in New York
Cooperative housing is
utilized for affordable
urban development, rural
trailer parks, community
land trusts, and luxury co-
op apartments.

**RETAILER-OWNED WHOLE-
SALE CO-OPS**
• Major players like
ShopRite, Ace, True
Value and Best Western
hotels are all coopera-
tives of small businesses
• Many fast food

franchises, like Dunkin
Donuts and
KFC, own purchasing
cooperatives.

Small business purchasing
cooperatives are growing
rapidly throughout the
region.

INSURANCE
• Vermont has 3
cooperatives,
36 agencies statewide,
43,000 policies
and \$35 million in
premiums annually

Because of the highly
regulated nature of the
insurance business, insur-
ance co-ops owned by
their users typically have
boards controlled by coop-
eratives. Mutual insurance
companies also often have
cooperative roots —
Nationwide, Amalgamated
Life and CUNA Mutual are
the best known.

**EDUCATION, SOCIAL
SERVICE, GOVERNMENT**
• Dayschool and preschool
cooperatives
• Regional educational
collaboratives
• Health care increasingly
uses purchasing co-ops
• Regional recycling districts
and other shared govern-
mental collaboratives
• Community clinics are
often co-ops
• SYNERNET, an
association of community
hospitals in Maine and
New Hampshire, is
revolutionizing
health care delivery.
• Massachusetts has more
than 300 co-ops of local
government

*Cooperatives
come in all
types and
sizes, from
neighborhood
housing co-ops
and local
credit unions
to market
leaders like
Ocean Spray
and Agway.
Yet we all
share one
thing: a
commitment
to cooperative
life.*