

S T E P S

TO STARTING A

Marketing Co-op

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Karen Zimbelman
E. Kim Coontz
Audrey Malan

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STEPS
TO STARTING A
MARKETING CO-OP

by
Karen Zimbelman
E. Kim Coontz
Audrey Malan

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Edited by Georgeann Halburian Ikuma

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Center for Cooperatives
University of California
Davis, CA 95616

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INTRODUCTION

Steps to Starting a Marketing Co-op is written for people interested in starting a marketing cooperative. It presents an overview of the basic steps to the co-op organizing process, start-up activities, and examples. For more detailed information, groups interested in starting a co-op are encouraged to refer to references that appear at the end of each step. This manual is not designed to replace the expertise of attorneys or other qualified and applicable technical consultants who specialize in the cooperative form of business.

What is a Co-op?

A cooperative is an enterprise voluntarily owned and controlled by the people who use it—its members. It is operated to meet the *mutual needs* of its members.

As a business, a co-op is subject to the same needs and demands of any business; co-ops require sufficient financing, careful market analysis, strategic and comprehensive planning, and well-trained and competent personnel. Co-ops are vulnerable to the same kinds of market and economic forces that face all businesses. But in important ways, co-ops are also unique and different.

The most distinct feature of a co-op is its ownership structure. The co-op's primary users (those using the marketing services of a marketing co-op) are the business' owners—this key feature influences many as-

pects of how a co-op is structured and run. Members are the foundation upon which a co-op is built. Without a strong base of members who will use the co-op and work to ensure its success, any co-op will fail.

Co-op Principles

As the cooperative form of business developed over the past 150 years, a set of "principles" has evolved. These principles, which define features unique to the cooperatives and characteristics important to co-op success, were revised in 1996 by the International Cooperative Alliance. The descriptions of the principles below appear in abbreviated form.

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 or religious discrimination.

2. Democratic member control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and decision making.

3. Member economic participation

Members contribute equitably to, and democratically control, the capital of their cooperative.

4. Autonomy and independence

Cooperatives are autonomous, self-help organizations controlled by their members.

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.

6. Cooperation among cooperatives

Cooperatives serve their members' most effectively and strengthen the cooperative movement by cooperating with one another.

7. Concern for community

While focusing on members' needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.



What is a Marketing Co-op?

A marketing co-op is a type of business structure used to improve or better facilitate the sale of products or services produced by its members. By marketing together through the co-op, members are able to get a better price for their products or have access to larger markets than they would on their own. In addition, marketing co-ops may also be involved in processing, assembling, packaging, or practicing other methods that add value to the product.

Agricultural marketing co-ops sell grains, fruit, vegetables, nuts, organic foods, cotton or other commodities grown by their members. Marketing co-ops have been organized to sell arts and crafts, finished textiles, wild crafted forest products (such as mushrooms, pine cones, berries, etc.), finished wood products, or other goods or services. A marketing co-op allows its members to focus their efforts on producing goods or services rather than finding buyers.

The Purposes of a Marketing Co-op

Every marketing co-op has its own unique circumstances that lead to distinctive features. But all successful marketing co-ops share one feature—they are all founded on a clear purpose and focus on efficiently meeting a shared need. Marketing co-ops are generally formed by producers for one or more of the following reasons:

- To obtain a **higher price** or to ensure a reasonable price for a product.

When peach growers jointly market their peaches through the co-op they are in a better position to bargain with handlers to ensure adequate and consistent prices.

- To reach a **broader market**.

When crafts people in a rural Appalachia co-op jointly produce a catalogue promoting their work, they can reach larger market than they would through road-side crafts stores.

- To **process or package** products to increase their value as well as profits.

When wheat growers jointly own a mill (to produce and bag flour) or a pasta production facility they obtain higher profit margins by providing a “value added” product.

- To gain **more control** over the way products are sold.

When organic dairy farmers form their own co-op, they are able to ensure that their product is marketed in the way they wish, by a company they own.

An added bonus . . .

- To **obtain supplies or services**.

Although not the purpose of a marketing co-op, in some cases members may be able to save money by bulk or quantity purchasing of items such as feed, art materials, packaging supplies, equipment, or office supplies. Group purchasing of services like bookkeeping, secretarial support, or training can reduce individual costs and increase member profit.

FEATURE: NORTHWEST FINE WOODWORKING

A Woodworker's Marketing Co-op

In the late 1970s, woodworkers in Seattle struggled to make a living. There were very few places where they could display or sell their works. The time they spent taking their items to fairs or to stores took them away from the craft work they preferred. Their sales profits were minimal because most stores or galleries took 50% or more of the sale prices.

The problems were discussed at a meeting of their local woodworking guild. After much discussion it was apparent that a cooperative provided the perfect solution—each member would be an equal co-owner of the company; the co-op could rent a space and pay the expenses of operating it. They incorporated and named the co-op The Northwest Gallery of Fine Woodworking.

Members contributed time and money to prepare the first store and took turns working shifts after it opened. By keeping start-up costs to a minimum, they didn't have to borrow any money.

Today, the co-op has two stores, thirty members and employs ten full-time staff members. To join the co-op, members are required to purchase \$100 in co-op stock. In addition, members each pay a \$500 initiation fee and \$50 per month for three years to help cover operating costs. The co-op also collects a 30% commission on members' sales through the co-op.

Members are no longer required to work in the gallery, though all are required to attend membership meetings each year and contribute to the co-op in some way—by serving on a committee, on the Board, being a part of a jury to screen prospective members' work, or related projects.

The five-member Board is democratically elected by members at an Annual Meeting. The Board of Directors is responsible for overseeing the co-op's operations, hiring management, and setting policy to guide management actions. In addition, the co-op's members participate in an annual long-range planning session and serve on special committees for the co-op—the Jury Committee, which screens and reviews prospective members' works; the Membership Committee, which works with interested potential members; and special committees, as needed.

STEPS TO STARTING A MARKETING CO-OP

The catalyst for forming a new co-op is a shared recognition that a group approach is the best means of meeting mutual needs. The co-op should begin with a clear mission, which may include: providing members better prices or access to a wider market; making products ready for a market; gaining the ability to deliver a quality product on a timely basis; or having better control over the way their products are marketed.

As with any new business, starting a co-op will involve thorough and careful business planning. Responsibility for starting a co-op and seeing it through rests mostly with a leadership group. That group will serve as the spark to keep the new co-op going and help shape it through the start-up phase. Careful planning, thorough work, and patience will result in a stronger foundation and increase the likelihood of co-op success.

Summary of Organizing Steps

The steps below are discussed in more detail in the pages that follow. Each step represents a point of evaluation for whether or not to proceed with the co-op.

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Step 1. Collect information, clarify needs, and assemble a core group. | Step 4. Hold a meeting of potential members to report and discuss feasibility findings. |
| Step 2. Hold a meeting of potential members to discuss needs and vision. Select Steering Committee to coordinate organizing and business research. | Step 5. Prepare a business plan. |
| Step 3. Conduct economic feasibility analysis. | Step 6. Convene a meeting to review business plan with potential members |
| | Step 7. Draft legal papers and secure membership commitments. |
| | Step 8. Hold the first, or charter meeting and elect Board of Directors. |
| | Step 9. Implement business plan. |
| | Step 10. Start operations. |

1.

Collect information, clarify need, and assemble a core group.

PURPOSE:

To collect basic information about marketing cooperatives. To assemble a leadership group that is interested in a new co-op and willing to work together on researching its feasibility.

GUIDELINES:

Collect materials, facts and data.

- Collect information about the kind of business you are interested in, including the co-ops' potential competition.
- Gather information about how marketing co-ops operate. (If product is subject to a fluctuating or volatile market like some agricultural products, learn about market pools—see Glossary.)
- Investigate requirements involved in the business such as special laws or regulations that apply to the business.
- Examine market alternatives for your members and analyze them considering their benefits as well as potential obstacles and problems.
- Identify resources that may be available to your group—including organizations as well as individuals who can provide cooperative development assistance.

- Begin collecting information about financial resources available to the group.

Clearly identify the mutual needs that a co-op could address.

- Research current market and options for producers. How do they currently sell their products? Investigate whether there are any likely changes to the options such as an impending plant closure.
- Talk to producers to determine areas of satisfaction and disappointment with current options. Determine the biggest obstacles they currently face in marketing.
- Utilize collected information already gathered to determine what areas of need that a co-op can address, and be realistic about the needs that a co-op probably can't address.

Identify people who might share an interest in the co-op.

- Share information about developing a co-op and assess interest.
- Identify and discuss mutual needs and how a co-op could address them.



KEY DECISION: DOES YOUR GROUP HAVE A MUTUAL NEED AND IS A CO-OP THE BEST WAY TO ADDRESS IT?

For more detailed information: (for complete citation, see Bibliography)
Baker and Nakazawa: *Organizing for Business as a Cooperative*
National Cooperative Bank: *How to Organize a Cooperative*
Schaars: *Cooperatives, Principles and Practices*
USDA/Agricultural Cooperative Service: *How to Start a Cooperative*
USDA/Agricultural Cooperative Service (Video): *How to Start a Co-op*

FEATURE: BLUE DIAMOND GROWERS

A Grower's Marketing Co-op

Blue Diamond Growers is a marketing co-op for almond growers based in Sacramento, California. Today, this 85-year old co-op annually processes nearly one-third of the world's crop of almonds. The co-op markets to all 50 states and more than 90 countries. As a result, almonds are California's largest food export and the sixth largest U.S. food export. But, like many co-ops, Blue Diamond started small.

At the turn of the century, growers sold their crops to independent dealers, negotiating individual prices. Dissatisfied with price cutting by these independent buyers, growers conceived of the idea of one statewide organization. In 1910, they formed the California Almond Growers Exchange. "We believe we can do our own business better than another can do it for us," wrote J.P. Dargitz, the co-op's first manager. "We have come together with no slate made up, seeking no position or place of preferment, but with a sincere desire to put the grower in control of the situation which is rightly his." When it began operations, the co-op had 230 grower-members.

By 1913, the co-op's membership grew to 490 growers and handled about 60% of the state's almond crop. In 1914, the co-op introduced its "Blue Diamond" brand and logo and built its first shelling plant in Sacramento a year later. Creating the world's first mechanical shell cracker, this new facility allowed the sale of almond meats for the first time in history. By 1923, the co-op's membership had grown to 3,000.

In 1925, the co-op introduced its first quality control program—based on a grading system. "The present method of handling the crop, without grading standards, always results in unfair return to the member who produces first-quality nuts . . ." wrote the co-op's president. This system has been expanded throughout the years and remains one of the co-op's hallmarks. By assuring buyers of consistent quality nuts and paying growers based on the quality of their crop, the co-op has built a world-renown reputation for its products on behalf of its members.

Today, the co-op has almost 5,000 grower-members and thousands of employees. A century ago, California produced less than 3% of the world's almond crop and only 25% of the almonds consumed in the United States. In the 1990s, California will produce over 70% of the world's almonds and virtually 100% of the almonds consumed in America. For its almond grower-members, Blue Diamond continues to find new ways to market almonds.

2.

Hold a meeting of potential members to discuss needs and vision. Select Steering Committee to coordinate organizing and business research.

PURPOSE:

To assess whether there is enough interest in a co-op to justify further research and planning.

GUIDELINES:

Hold an informational meeting of people who may be interested in a co-op.

- Plan for an effective meeting (see p.13).
- Present research findings. Focus the discussion around the identified common need.
- Allow plenty of discussion time so people can ask questions and express their views. Be realistic about what the co-op can and can't do—especially in its early stages.
- Vote on whether or not to proceed.
- Obtain money for initial development of the co-op.

Investment of personal money or involvement in fundraising is often an excellent way to test commitment to the co-op.

Money should be deposited in a special bank account, placed in escrow, or managed in a manner that assures members of security and fiscal responsibility. Money may be collected from potential members (applied to membership fees), earned through fundraising activities or procured through development grants or loans.

Make a plan for how unused development funds will be used if the co-op isn't formed. State laws may dictate restrictions but options may include donation to a specified charity or non-profit organization or re-distribution to specific contributors. In the case of fundraising the former may be the most prudent use of the funds.

Elect a Steering Committee.

The Steering Committee is responsible for carrying the idea for a new co-op through the development phase or until a Board of Directors is elected. The committee may do the research itself, in cooperation with potential members. Or it may obtain outside assistance and serve as a liaison between potential members and outside consultants. Specifically, the Steering Committee is responsible for:

- surveying potential members.
- collecting market and financial information.
- conducting a feasibility study.
- keeping potential members informed of the group's progress.
- coordinating further membership meetings.
- overseeing the preparation of a thorough business plan.

KEY DECISION: IS THERE SUFFICIENT INTEREST IN A CO-OP?

For More detailed information: (for complete citation, see Bibliography)
Center for Cooperatives: *Starting an Agricultural Marketing Cooperative*
Gray and Lang: *Starting a Cooperative for Hardwoods and Special Forest Products*
USDA/Agricultural Cooperative Service: *The Cooperative Approach to Crafts*

FEATURE: GUIDELINES FOR SUCCESSFUL MEETINGS

General Components of Good Meetings

- Good facilitation
- Commonly understood goals
- High level of participation

Be Well Prepared

1. Select a time and location that will be convenient for most people.
2. Publicize the meeting. Send press releases to your local media announcing your meeting and a contact person. Encourage word-of-mouth promotion. Post notices at strategic locations.
3. Clearly define the goals of the meeting and structure accordingly. Plan to begin the meeting with the most important items.
4. Arrange a facilitator and note-taker in advance. Groups that meet regularly may wish to consider rotating facilitation to give more people the chance to develop these skills.
5. Prepare a written agenda and post or distribute it (ahead of time, if possible). Distribute a handout that includes the names and phone numbers of people to call for questions.
6. Schedule time wisely. Make sure that the meeting's goals and agenda items can be met in the time allotted. In general, it's best to limit meetings to two hours.

Sample agenda: (for an informational meeting)

Introductions

Background and basic report: Describe what a co-op is, how a marketing co-op works and how it can address mutual needs.

Discussion and decision:

- What are our mutual needs? What products do we all produce that could be marketed together?
- Does the co-op idea make sense?
- Vote: Should we continue to research the idea of a co-op?
- If so, elect a Steering Committee: Define Steering Committee responsibilities; take nominations; vote.

Set next meeting date/time

Adjourn (on time)

Utilize Optimal Facilitation Techniques

1. Keep the role of facilitator neutral

- The role of the facilitator is to ensure that the group accomplishes its goals for the meeting in a democratic manner.
- When a facilitator wants to offer an opinion s/he should leave the facilitator role and say something like, "Stepping outside my role of facilitator, I think..."
- If the facilitator wants to support a particular position, it's best to turn the role over to a volunteer until discussion ends on that agenda item.

2. Keep the meeting moving, on track and on time

- Call the meeting to order on time. Review the agenda and meeting goals. Have participants introduce themselves.
- Introduce each agenda item and call on those making presentations.
- Make sure that discussion doesn't get stuck on an item. If discussion wanders off the topic, remind the group of the agenda item being discussed and the objective for this discussion. If the group doesn't have enough information, cut off discussion and clarify how it can be followed up to ensure that the group can make a decision at a subsequent meeting.
- Handle any voting needed. Before the vote, clearly state the motion or proposal. If the outcome is close, ask someone else to verify the vote by counting hands or ballots.
- Conclude the meeting on time and on a note of achievement. Remind participants of the actions taken and decisions made. Ask participants for their evaluation of the meeting. Even simple suggestions about what went well and what could be improved will enhance your meetings. Close by confirming necessary follow-up actions and announcing the next meeting date, time and location.

3. Draw out opinions

- Keep the discussion on the topic but encourage participation.
- Ask people to speak for themselves and to be specific. Don't allow statements like, "Some people seem to feel . . .", or "What s/he is trying to say is . . ."
- Encourage the expression of various points of view.
- Call attention to disagreements. When handled forthrightly, differences of opinion can yield creative solutions.

4. Help everyone to participate

- Make sure that everyone has a chance to speak and that one or two people don't monopolize the discussion. Draw out those who tend to be more quiet.
- Encourage open discussion that allows for disagreement on issues but doesn't tolerate attacking individuals.
- If the agenda is taking longer than anticipated, decide as a group how to proceed—to extend the meeting or to re-schedule some agenda items to the next meeting.

5. Address disruptive behavior:

A. Prevention techniques

- Get general agreement on the agenda before the meeting.
- Set ground rules with group input at the beginning of the meeting—for example: no interruptions, allow everyone to participate, be brief, etc. Restate these rules at the beginning of subsequent meetings.
- If there is a consistent problem with certain people, encourage all participants to point out distracting behavior.

B. What to do when behavior occurs

- If the person's comments are off track, repeat the goals of the meeting ("That's an interesting point but we've agreed to focus today on . . .").
- If someone is dominating the discussion explain the importance of group participation and call on others to give comments.
- Take short breaks to relieve tension.
- Form small committees to deal with specific problems or issues instead of using valuable group time.

— Adapted from "Facilitating Meetings" by Gayle Haberman

3. Conduct economic feasibility study.

PURPOSE:

To assess whether the proposed co-op is likely to be successful and beneficial to its members by determining important factors including: markets and volume of business, potential membership, facilities needed, operating costs, capitalization and funding options.

GUIDELINES:

Divide the tasks and assign them to individuals or subcommittees. Every attempt should be made to assure that data is collected and utilized to make realistic projections.

Survey potential members.

It is important that the survey be thorough, confidential, and accurate because the results are crucial to the way that the marketing co-op is organized.

- Determine what information you need from potential members and prepare a list of questions. Surveys can be completed by phone, face-to-face or distributed questionnaire.
- Contact everyone that is interested in the co-op. Survey information should include what they produce, how much they produce and how much they would be marketing through the co-op, what their overall needs are, and what they would like to accomplish from the co-op. Determine whether potential members plan to market all of their products through the co-op or whether they expect to conduct sales and marketing through other outlets as well.
- Identify the common needs and how much each member can contribute to the co-op's business volume.

Conduct market research and analysis.

This research may vary slightly depending on the particular product to be marketed, but generally this research should discern the potential market niche for the co-op, identify potential markets, and define operational technicalities like method of distribution.

- Talk to key individuals from similar co-ops in your state and visit those nearby.
- Find out about similar, non-cooperative businesses and how they operate.
- Compile a list of essential items to be acquired or accomplished (e.g. business licenses, key equipment) and approximate costs.
- Investigate and identify possible sources of funding—membership capital as well as grants and loans. Investigate alternative funding sources such as special start-up financing, economic development money for job creation and revitalization, and member loans.
- Obtain assistance from outside experts and consultants with experience in starting new businesses and new co-ops. Check with your regional cooperative development center, USDA, local university, county extension office, economic development agencies, chamber of commerce, and related groups for possible resources and experts.

Prepare financial projections.

- Compile the information that has been collected. For a list of specific areas to address in your feasibility study, see the next page.
- Outside experts and consultants will be invaluable in helping to prepare this information.

KEY DECISION: IS THERE SUFFICIENT PRODUCTION CAPACITY FROM MEMBERS AND DO THE INITIAL FINANCIAL PROJECTIONS SUPPORT STARTING A CO-OP?

For more detailed information: (for complete citation, see Bibliography)
National Society of Accountants for Cooperatives: *NSAC Resource Guide*
Rasmussen: *Financial Management in Co-operative Enterprises*

FEATURE: KEY ELEMENTS OF A FEASIBILITY STUDY

Purpose of the co-op

- Identify common needs.
- Determine the services that the co-op will provide to members.
- Define the kinds of products the co-op will market.

Business potential

- Determine the market for products.
- Utilize data from survey of potential members to determine probable membership size and supply of products for marketing.
- Outline the shipping or transportation needs (and costs) involved in getting the co-op's products to its customers.
- Ascertain the competition the co-op will face.

Define how operations will work

- Determine method of guaranteeing that members will maintain a predictable supply of products or services for marketing.
- Define the workings of and costs in operating the co-op.
- Determine the total costs of necessary equipment, facilities, and personnel.
- Determine the approximate costs and benefits of marketing without a co-op. (This will need to be compared with potential financial benefits to the members of the co-op.)

Finances and financial justification

- Determine start-up costs.
- Determine the approximate costs of operating such a co-op.
- Financially relate the operation costs, member benefits and financial needs.

Financing sources and costs

- Determine financing options and their related costs.
- Estimate the amount of initial funding potential from members and other sources.
- Ascertain the approximate total amount that members will need to contribute to the base capital of the co-op and how it will be collected.

Start-up needs

- Consider organization and research time, availability of facilities, seasonal production cycles, management recruitment and other applicable factors to establish a realistic timeline for starting the co-op.
- Determine overall approximate start-up costs, including the availability and cost of facilities.

4.

Hold a meeting of potential members to report and discuss feasibility findings.

PURPOSE:

To use the findings of the feasibility study and the reaction of potential members to determine whether the co-op makes financial and practical sense, and to assess commitment to co-op formation.

GUIDELINES:

(It may be necessary to hold two meetings to cover the entire report.)

Publicize the meeting.

- Notify those who have attended previous meetings or expressed an interest in the co-op by mail, telephone and posters; encourage them to bring other potential members.
- Announce the meeting by using public service announcements, community calendars (for local radio, television stations, and newspaper) and applicable trade journals.
- Be aware that in some marketing situations, competitors or existing marketing agents may attempt to hinder the co-op's organization efforts.

Prepare written materials for members to review.

- Prepare a written agenda and copies of

the Steering Committee's summary of feasibility findings and recommendations to potential members and distribute to meeting participants.

Review the feasibility findings in detail.

- Discuss the business idea, its markets, and the financing needed for start-up and operations. Stress the importance of member commitment to marketing products through the co-op to insure a sufficient and predictable supply of products to be marketed.
- Encourage full discussion by all participants.
- Consider day-to-day operations, management needs and projection for needed employees (if applicable).

After sufficient discussion, hold a vote of the meeting's potential members on whether to proceed with the co-op.

- If members vote to incorporate the co-op, the resolution should clarify that the Steering Committee is responsible for preparing legal documents for the co-op.
- Members may also request that further research be done, or that changes be made to the Steering Committee report.



KEY DECISION: ARE MEMBERS COMMITTED TO STARTING A CO-OP?

5. Prepare a business plan.

PURPOSE:

To define how the co-op will be structured and financed.

GUIDELINES:

A detailed and thorough business plan is needed in order to finalize the findings of the feasibility study, and determine operations and the on-going costs and benefits to the co-op. In addition to being the key working document for the co-op, a business plan is required for most loan and grant applications.

Importance of the business plan.

- The business plan outlines and defines every facet of the co-op's potential business and operations—including who is involved, obligations of members, who the customers are, how they will find out

about the co-op's products, how products will get to them, where the money will come from, and the costs of operation (see next page).

- The discipline of documenting your ideas and assumptions—projecting financial and operational figures—and pulling all of these elements together into one complete plan is invaluable to any new business. The plan will be changed over time to adapt to an evolving business environment.
- Although the co-op Steering Committee must be intimately involved in the business plan development, the assistance of consultants and resource people experienced in working on new business start-ups and preparing business plans will be essential to insure an accurate, objective and useful plan.

KEY DECISION: DOES THE BUSINESS PLAN SUBSTANTIATE MEMBER BENEFITS AND THE CO-OP'S SHORT- AND LONG-TERM VIABILITY?

For more detailed information: (for complete citation, see Bibliography)

Sargent: *Your Business Plan*

Swanson and Myers: *Business Planning for Cooperatives*

FEATURE: A BASIC BUSINESS PLAN

Table of Contents

1. Introduction and Summary:

Name, address and phone number of business; names (and phone numbers) of key personnel (management and Board of Directors or Steering Committee); summary of business plan findings.

2. Business Description:

- statement of purpose for the co-op; definition of members; summary of legal form; goods and/or services to be offered by the co-op
- industry overview; current status and prospects in the industry; new products and developments; trends influencing the industry
- product description; how it is unique; status of product development
- strategies used by the cooperative to insure a predictable supply of products

3. Market Research and Plan:

- potential customers and market size and trends—competition analysis; estimated sales and projected market share
- overall marketing strategy—quality control; pricing; sales tactics; service and warranty policies; advertising and promotion plans

4. Management and Development Plan:

- management—ownership; Board of Directors; key personnel and organizational chart; training needs; supporting professional services; staff needs and costs
- organizational development—steps in developing the business; obstacles and risks; development schedule; projected costs

5. Technical and Operational Plan:

General operational plan; break-even levels of production; location; facilities description and capacity; equipment needs; labor force; analysis of critical risks

6. Financial Plan:

- projections for profit and loss, cash flow, and balance sheet; break-even analysis; financing sources, and justifications for these projections
- presentation of optional financial plans given three scenarios—best, worst and expected

7. Community Benefits:

Economic; human development; community development

8. Supporting Documents:

Resumes of leadership group; letters of reference; copies of drafted membership agreements (these are subject to approval by the membership); etc.

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6.

Convene a meeting to review business plan with potential members.

PURPOSE:

To evaluate the business plan, make adjustments and either approve or reject it.

GUIDELINES:

Prepare for the meeting and emphasize the importance of attendance.

- The Steering Committee should prepare a report (or supervise its preparation) that summarizes the findings of the business plan research and distribute it to potential members before the meeting.
- Conclude the report with the committee's recommendation to proceed or not to proceed with the co-op.

Share the business plan results with potential members.

- Review all aspects of the business plan.
- Discuss the proposed business organization, management structure, governance

structure, financial needs, and capital ownership arrangements.

- Carefully discuss the Steering Committee's recommendations.

Obtain the group's formal commitment to organize the co-op.

- Vote on whether or not to proceed with organization.

Initiate funding.

- Solicit an established financial commitment from potential members. This process will serve two functions: it will sift out those who are most committed to the co-op, and it will generate funds essential for the documents outlined in the next step.
- Prepare loan or grant documents, as applicable.

KEY DECISION: SHOULD THE GROUP CONTINUE WITH CO-OP ORGANIZATION?

7.

Draft legal papers and secure membership commitments.**PURPOSE:**

To clarify organizational details, prepare necessary legal papers, and secure the written and financial commitments of members.

GUIDELINES:

Use the guidance of an attorney experienced with cooperatives to complete this step.

Select a name.

In order to conduct business and incorporate, the co-op must have a name. Including the word "cooperative" or "co-op" in the name reminds members and the public that it is a producer-owned business (in some states only organizations legally incorporated as a cooperative can legally use the name).

Prepare bylaws, articles of incorporation, and membership agreements.

- The bylaws provide legal guidance to operating the co-op including topics like membership, shares, membership meetings, voting, directors and officers, and how bylaws can be changed. The articles are the founding legal documents that give the corporation its existence. The membership agreement specifies the rights and obligations of membership.
- Articles, bylaws and membership agreements should be approved by potential members and reviewed by an attorney

experienced with co-ops. The documents will need to be approved by the membership at the charter meeting.

- Copies of each approved document should be distributed to each potential member in preparation for the charter membership meeting.

Incorporate the business.

Incorporation is strongly recommended because it limits liability for individual members, provides a legal entity for business transactions, and allows enforcement of bylaws and membership agreements.

- Articles of incorporation and bylaws are usually filed with the Secretary of State's office, though specific regulations vary by state.

Secure membership commitments.

- Request that interested members sign the approved membership agreement. Technically this document is not usually valid until after the charter meeting. By signing the membership agreement, the new member agrees to belong to and use the co-op and to furnish a specified amount of initial capital under specified conditions and time period.
- Additional membership recruitment or communication with those unsure about membership is often an ongoing need for the co-op.

KEY DECISION: DO WE HAVE MEMBERSHIP COMMITMENT TO THE CO-OP?

For more detailed information: (for complete citation, see Bibliography)
 Baldwin: *Co-op Incorporation Sourcebook*
 National Cooperative Bank: *Draft Articles and Bylaws*

FEATURE: Sample Membership Agreement

As a member producer of _____ (name of co-op) I agree to:

1. Be bound by the cooperative's articles of incorporation, bylaws, rules and regulations now or as amended.
2. Agree to offer all of my approved products to the cooperative first, before offering them to any other market.
3. Abide by the association's price structure that in the event I produce more items (or a volume of items) than the association can sell, I can sell to another market at a price no less than the co-op's. If I sell to an individual, I must sell at retail prices.
4. Appoint the association as my agent to sell all of the products contracted for which have been approved by the Standards Committee or quality control manager. After approval, all products received by the co-op will be inspected for quality. I will accept the return of unsatisfactory products.
5. Deliver such products at such time and to such places as may be prescribed by the co-op, or its representative.
6. Notify the co-op of any lien on the products delivered.
7. Supply to the co-op only those products designated and contracted for by the co-op.
8. Pay the co-op a penalty on any products not delivered as agreed in this contract. The penalty would be equal to the gross margin lost to the co-op by the undeliverable products, plus any legal fees it incurs in the collection of this penalty.
9. Provide my (product information, designs, patterns, list of ingredients) for approved products to the co-op.
10. Assist the co-op in training other members to meet market needs as possible and practical.

I hereby agree to deliver the following items, to be marketed wholesale and/or retail at the discretion of the co-op:

quantity	item	price

The co-op agrees to:

1. Accept producers as members when their products have been approved by the Standards Committee or quality control manager.
2. Act as agent for the marketing of products of the member producer as herein provided.
3. Market members' products in a manner deemed to be the most advantageous for its members.
4. Account to the member in accordance with this contract for all amounts received from the sale of those products.

(producer's name and address) _____
(date)

(producer's social security number, phone, etc.) _____
(amount paid)

Accepted by _____
(signature of authorized representative) _____
(date)

on behalf of _____
(name of cooperative) _____
(address, etc.)

Steps to Starting a
Marketing Co-op

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8.

Hold the first, or charter, meeting and elect Board of Directors.

PURPOSE:

To formally begin the co-op and accept the articles and bylaws.

GUIDELINES:

Review member roles and responsibilities.

Members govern their co-op by electing the Board of Directors to represent the co-op. The Board hires and oversees management; management is accountable to the Board; and the Board is accountable to the members. In this way, members exercise ownership and control of their cooperative.

Approve bylaws.

- As with any Board meeting, minutes should record what transpired during the meeting.
- Review and discuss bylaws. If necessary amend the bylaws, being careful that amendment is subject to legality upon review of legal counsel.
- Ask for a motion and vote to approve, or adopt the bylaws by a majority vote of the co-op's members.

Elect Board of Directors.

- Hold an election to choose the co-op's first Board of Directors.

Share information with members.

- Present recent developments with the membership. Discuss roles and responsibilities of members, Board and management.
- Discuss or announce plans for ongoing communication with members.

Convene first Board meeting.

The Board of Directors should hold its first meeting shortly after the charter membership meeting. The following should be addressed at the meeting:

- Elect officers—Board president, vice-president, secretary, treasurer, or other positions as defined in the bylaws.
- Approve a membership application and/or agreement.
- Clarify Board and management roles and responsibilities and how responsibilities will be fulfilled (e.g. prepare job descriptions, action plans, or work assignments).
- Select a bank or financial institution and arrange for bookkeeping and handling of the co-op's finances.
- Refer to the business plan and address all matters needing attention to start operations, including hiring the co-op's management.

KEY DECISION: WILL THE BYLAWS BE APPROVED AND WHO WILL SERVE ON THE BOARD OF DIRECTORS?

For more detailed information: (for complete citation, see Bibliography)
 Chapman and Holland: *The Contemporary Director*
 Garoyan and Mohn: *The Board of Directors of Cooperatives*
 USDA/Agricultural Cooperative Service: *Organizing and Conducting Cooperatives' Annual Meetings*

Steps to Starting
Marketing Co-ops

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FEATURE: BASIC RESPONSIBILITIES OF THE CO-OP BOARD OF DIRECTORS

The Board of Directors is responsible for a corporation's actions and for ensuring that the corporation complies with regulations. The primary responsibility of a Board is to make sure that the best interests of the corporation (the co-op) and its owners (the members) are protected.

The fundamental legal standard for directors is to act "in good faith, in a manner he/she reasonably believes to be in the best interests of the corporation, and with such care as an ordinarily prudent person in a like position would use under similar circumstances." All directors are responsible for meeting this standard.

Boards meet at regular, set intervals, for example, monthly, bi-monthly, or quarterly. Officers (president, vice president, secretary, and treasurer) are typically elected to organize work and to assist in the Board's internal operations. Effective Boards get training and help as soon as possible and pursue on-going training and educational programs to help them understand and effectively fulfill their responsibilities.

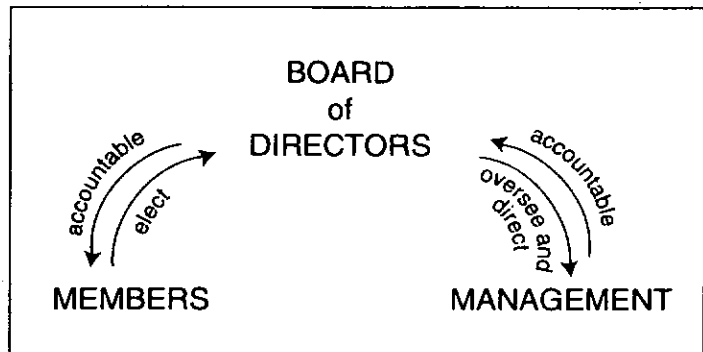
Three primary responsibilities of the Board:

1. To act as trustees on behalf of the members. Boards do this by carefully monitoring the co-op's financial status, by hiring auditors to review financial records, by reporting on the status of the co-op to the members regularly, and by making sure that the co-op follows its bylaws, policies, and appropriate regulations.
2. To ensure sound management of the co-op. Boards are responsible for hiring and supervising the co-op's management. Boards do this by reviewing management reports and monitoring key indicators (such as inventory turnover, sales trends, or other financial ratios) as well as by evaluating management performance.
3. To set long-range goals and to ensure planning for the co-op's future. Boards do this by being involved in strategic planning discussions, by approving yearly and long-range plans, and by setting performance goals.

A Special Note on the Importance of Clear Board and Management Roles

The Board of Directors and management both play crucial roles in the organization's success. The Board is accountable to the members. Management is hired by the Board and is accountable to the Board.

Management is responsible for the day-to-day operations of the co-op. The Board does not participate in the management of day-to-day operations.



9.

Implement the business plan.**PURPOSE:**

To prepare for the start-up of the co-op's operations.

GUIDELINES:

Secure financing and finalize agreements from all sources: Members, grants, loans, purchases and rentals.

Acquire facilities and necessary licenses and permits.

Hire a manager.

The Board of Directors or a special committee is responsible for hiring a manager.

- Identify the skills expected from the manager.
- Prepare a job description that clearly specifies responsibilities (see p. 26). Specify any particular goals for the manager in the first year.
- Advertise the position as widely as possible. Many trade magazines require substantial notice for position listings. Local papers and employment offices can often

list jobs very quickly. Depending on the skills and experience needed, you may wish to consider engaging a search firm. Use as many local contacts as you can think of — local economic development agencies, chamber of commerce, business people, local co-ops, etc., to publicize the position.

- Carefully screen all applicants. Check references and job experience.
- As you search for potential co-op managers, consider looking for managers with successful start-up experience. The right manager for a start-up may not be the right manager to manage the co-op's operations in the long term. Starting a new business requires special skills.
- Early management responsibilities should include developing communication skills with members that build trust and engender support, researching facilities and equipment, working on marketing or sales efforts, and making arrangements to begin the co-op's operations.

KEY DECISION: IS THE CO-OP READY TO BEGIN OPERATIONS?

For more detailed information: (for complete citation, see Bibliography)
Henehan and Anderson: *Decision Making in Membership Organizations*

FEATURE: SAMPLE GENERAL MANAGER JOB DESCRIPTION

Accountable to:

The general manager is hired and supervised by the co-op's Board of Directors. The general manager serves at the Board's discretion.

General Responsibility:

To establish and oversee the management of the co-op's affairs to meet the goals and objectives set by the Board of Directors. Hire and supervise other staff as needed.

Specific Responsibilities:

Board relations

- Prepare clear and timely reports to the Board. Address Board concerns and issues raised by the Board in a timely and effective fashion.
- Keep directors informed about major matters between Board meetings.
- Work with Board to prepare for and ensure productive, effective Board meetings. Prepare proposals for Board consideration.

Finances

- Ensure adequate financial records and internal controls to provide timely and accurate financial statements. Prepare financial statements to submit to the Board.
- Ensure the co-op's assets are adequately safeguarded from loss.
- Coordinate the preparation of all budgets and financial projections.
- Oversee in-depth financial analysis and promptly address financial problems.
- Initiate financial planning, use of member equity, financing needs, future profitability, etc.

Marketing

- Prepare comprehensive marketing plans to build short- and long-term stability.
- Ensure that the co-op is effectively presented to customers and to the public.
- Monitor and improve customer and member service levels.
- Perform regular analysis of the co-op's competition and market potential.
- Represent the co-op in trade and local business associations.

Operations

- Effectively organize the co-op's operations to maximize profitability.
- Identify and address operational problems.
- Plan for the co-op's on-going operational needs, including technology, facilities, and equipment.
- Ensure compliance with all applicable federal, state, and local laws.
- Maintain adequate security of facilities and insurance for the business.

Human resources

- Establish and ensure that effective personnel policies and procedures are in place that support the co-op's values.
- Hire, evaluate, and set compensation for staff.
- Ensure adequate training, evaluation, safety, and personnel systems.
- Monitor personnel "key indicators" and plan for improvement as needed.

Member relations

- Establish systems and procedures that ensure the co-op's members remain informed about the co-op's status, needs, and activities.
- Make sure that members' needs are regularly measured and addressed.
- Establish quality control standards and enforcement procedures. Communicate clearly about these standards and procedures to members.

10. Start operations.

GUIDELINES:

Once the co-op is incorporated or has approved the bylaws, it is ready to begin operations. As soon as management (and staff) have been hired, their first task will be to begin implementation of the co-op's business plan. Aside from operational matters, management should be responsible for the following activities.

Develop community recognition.

- Celebrate a Grand Opening with a sale or other special commemoration.
- Publicize the co-op's early accomplishments to help create a positive image of the co-op in the community.

Establish and maintain on-going communications with members. Members are crucial to business success.

- The co-op should keep in close communication with members and the Board of Directors—especially if it takes a while to get things going. As the co-op begins making sales, keep members apprised of progress.

- Develop a plan for recruiting and screening new members.
- Conduct a periodic membership survey to make sure the co-op is meeting needs.

Hold a planning session or retreat.

Once operations have begun and you have some operating history (about six to nine months), hold an intense planning session or retreat for management and the Board to discuss how things are going and where to go next. Establish short- and long-term goals—1 and 5 year—for the co-op. The co-op's on-going success depends on constant vigilance to business basics and keeping in contact with members.

- Review the list of "keys to success" and strategize on how your co-op can strengthen its operations in these areas.
- Integrate on-going training for the co-op's Board and management—continuous education is critical to keeping members and the co-op's leadership "up to speed."

For more detailed information: (for complete citation, see Bibliography)
Baldwin, Van: *A Legal Guide to Co-op Administration*



KEYS TO SUCCESS

Each cooperative has unique aspects and faces different start-up challenges—however, there are common areas critical to the future success of the cooperative. The main reasons that new businesses, including cooperatives, fail are:

- insufficient financing
- lack of business expertise

By paying careful attention to these areas you can avoid many problems that shut down most new businesses. The following are some key areas to ensure the success of a new cooperative business.

1. Clearly Defined Purpose and Focus

If you don't know where you are going, any old place will do.

A new cooperative should be formed to achieve specific goals for member's needs that are clearly identified and accepted by its members. When a co-op's purpose is understood by everyone involved, it is much easier to define the path (business plan) and achieve those goals.

In the beginning, primary goals should be addressed with a specific focus—possibly handling a few products or services. This gives the co-op the opportunity to test the market and collect more detailed information that will promote growth, stability and success.

2. Thorough Business Plan

The business plan is a road map detailing where

your co-op is going, and how it is going to get there.

A business plan is a conservative look into the future. The purpose of the business plan is to minimize the risk associated with a new business and maximize the chances of success through research and planning.

The business plan should be accurate and comprehensive enough to make people feel secure in investing large amounts of their own money. If members do not have the confidence in the plan to invest their own money, neither will a bank.

3. Sound Business Practices

If you don't drive your business, you will be driven out of business (BC Forbes: Forbes, 1 Apr 74).

Sound business practices create a solid foundation from which to operate. Good book-keeping and accounting in the beginning prevent major financial problems down the road.

4. Adequate Financing

Success is more a function of consistent common sense than of genius (An Wang: Boston Magazine, 1986).

Start-up funds are required to conduct feasibility studies, research and prepare the business plan, pay attorney and accountant fees, and cover initial operational phases of the co-op until product sales bring in cash to run the business.

Co-op members are the key initial source of financing for the cooperative. This money is collected from members through the sale of shares or ownership certificates of the cooperative. Finances collected from membership should provide enough collateral to leverage additional financing from banks or other lending institutions.

Options for obtaining additional financing should be thoroughly researched. Options often include grants loans, special start-up financing, economic development money for job creation and revitalization, and member loans. Local economic development offices and other agencies may have modest amounts of money to assist groups with start-up financing or may assist in locating other financial sources.

5. Business Advisors and Consultants Knowledge about Cooperatives

Many failed cooperatives neglected to take advantage of business and cooperative business expertise.

Most producers are not expert business people, and cooperative businesses are complex. Utilize competent legal, accounting, lending and development advisors—check references and get referrals from other cooperatives. Advisors and consultants can save you time and money, while helping your co-op avoid predictable pitfalls and get a solid start. Whenever possible, use professionals familiar with co-ops. When that is not possible make sure that someone familiar with co-ops reviews work done for your group.

6. Strong Member Commitment

If the new venture is to succeed it must have a broad base of support among its members.

It is not enough for lenders, accountants, attorneys, consultants, and even a few leaders among the member group to believe in a project. This support is actualized by clear membership agreements. The co-op is the

primary place of business and strong financial commitment from the members is critical. These are indications of support and confidence by the membership in the co-op.

7. Quality Control Standards

A business is only as good as its products.

A consistent quality of product is essential for the co-op to successfully market members' goods. Product standards should be clearly specified in the membership agreement.

8. Clearly Defined Roles for Directors and Management

Boards direct, managers manage.

Many problems associated with cooperatives can be avoided by ensuring that the Board of Directors and the management clearly understand their respective roles and responsibilities. The Boards' primary obligation is to set policy, help guide planning and monitor management. The management's responsibility is to run the day-to-day operations of the co-op.

9. Ongoing Cooperative Education for Members, Directors, Management and Employees

Education is the ability to listen to almost anything without losing your temper or your self-confidence (Robert Frost: Reader's Digest, Apr 60).

In our society we are not taught how to own and operate a business cooperatively. Because of this unique ownership structure, ongoing education and training is critical to the long-term stability and strength of the cooperative.

10. Working Relationships with Other Cooperatives (Avoid Isolation)

Cooperatives best serve their members, and their community, by cooperating with other cooperatives.

Because cooperatives are unique, there is a tendency to feel isolated in the business

world. By networking with other cooperatives, cooperators have the opportunity to learn from each other, share war stories and laughs, and avoid a sense of isolation. By do-

ing business with other cooperatives, cooperators not only have a better understanding of one another, but strengthen the cooperative movement as a whole.

FEATURE: THE SAN DIEGO COUNTY FLOWER & PLANT AUCTION

A grower-owned marketing co-op

The California Flora Culture Growers Association of the San Diego County Flower and Plant Auction, was established in 1982 to help flower growers sell their products. The co-op allows grower-members to earn more income and control how their products are handled.

Modeled after successful flower auctions in Vancouver (British Columbia) and the Netherlands, the co-op's day begins as members deliver their cut flowers and greens to the co-op at 4:00 a.m. At 6:00 a.m. customers can inspect products; the auction begins a half hour later. The co-op's customers are retail florists, some of whom travel over 100 miles to get to the auction.

The auction is handled electronically with buyers seated at desks. The auction operates the opposite from traditional auctions. When an item is introduced, it is listed at a price slightly above the expected market price. The price gradually falls until someone bids — so there is just one bidder on an item. If the buyer doesn't take all of the product available, the bidding starts again and gradually falls until another buyer bids. The co-op handles about 600 transactions per hour and the bidding generally takes up to one and one-half hours.

For its 47 members, the co-op provides many tangible benefits. While most flower growers pay 25-30% commission to wholesalers, the co-op charges members only 15%. Most wholesalers discard unsold products. In contrast, the co-op notifies members of unsold product and they have the chance to request that the product be put up for auction another day, or to pick it up. The co-op sells about 90% of what members deliver.

To join the co-op, a grower must sell through the auction as a non-member for one year; paying a commission rate of 25%. After a year, the grower can apply for membership. If the grower has sufficiently delivered the quality and amount of product per contract terms the grower is accepted. Members are required to invest \$5,000 in the co-op; which can be paid over a three year period of time.

Today, the co-op has 20 employees, five of whom work full-time. While the majority of the co-op's members are in California, the co-op also has members who grow items from Washington, Oregon, Hawaii, and Florida. After moving twice, the co-op decided that a permanent location was vital to its success. It now owns the 150,000 square foot building that serves as the San Diego International Floral Trade Center. The co-op leases space to 40 other tenants who are flower wholesalers.

CONCLUSION

Starting a co-op can be a challenging and rewarding activity. It requires research, careful planning, patience, and uncounted hours of time. The co-op may not turn out exactly as it was originally conceptualized. It will inevitably take longer than you wish it would to get started.

For groups that invest the time and work to start a co-op, there are abundant benefits. You will learn about business and become the co-owner of a dynamic and valuable business. Most of all, you will provide yourselves with income and other tangible economic benefits. **Good luck!**

GLOSSARY OF TERMS USED

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articles of incorporation — the founding legal documents of a corporation. When articles of incorporation are filed with and approved by the appropriate state agency, the corporation begins its own distinct existence, subject to the laws and regulations affecting that type of corporation.

bylaws — describes how the co-op will conduct its affairs. While bylaws need to be more specific than articles, it is wise to avoid being too specific in bylaws. Bylaws are approved by the membership and specify in more detail the procedures that will be used in approving members, distributing net income, paying back members' capital, voting, the number and responsibilities of the Board of Directors, and other matters.

Board of Directors — the elected body responsible for the actions of a corporation.

capital — money used in a business, whether supplied by owners or borrowed. Capital most typically refers to the money contributed to a business by the owners or stockholders. In accounting, capital refers to the remaining assets of a business after all debts and amounts owed to others have been deducted.

corporation — a legal entity created under state corporate laws. Once established, a corporation has its own legal powers, rights, and liabilities distinct from those of its owners or managers.

dividend — amounts paid to business owners based on their investment. Typically, dividends represent a share of profits paid to shareholders proportionate to the shares held. Cooperatives sometimes pay dividends to encourage member investment.

equity — the ownership interest in a business. Equity is typically calculated by subtracting all liabilities (amounts owed) from all assets (amounts and property owned). Equity is made up of investments by owners (members) and the cumulative earnings of the business.

incorporate — to establish a business as a legal entity. Incorporation typically entails filing Articles of Incorporation and bylaws with the state to conform to a corporate statute.

market pool — a business arrangement between cooperative associations and their producer members whereby the commodity, product, or crops of many producers are sold by the association instead of the individual producers. The proceeds of the sale are divided among pool members. The cooperative management determines the best time and place to sell. Members then receive the average return earned by the pool.

net savings — total income (sales) less total expenses. Also called profit and net income.

patronage rebate or patronage refund — distribution of profits made by co-ops to members, proportionate to members' use or purchases from the co-op. Also called patronage dividends.

shares or membership shares — the investment units sold to co-op members. Shares are like stock in a traditional business, but are not subject to the same regulations that govern stock in investor-owned firms. For that reason, most co-ops prefer to use the term "share" in reference to member investments.

Steering Committee — a committee responsible for guiding work. In this context, the Steering Committee is the organizing group responsible for researching and planning a new co-op. A Steering Committee is typically elected or selected by those interested in researching the feasibility of a new co-op.

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RESOURCES FOR FURTHER ASSISTANCE

Center for Cooperatives
University of California
Davis, CA 95616

ph: 916/752-2408 fax: 916/752-5451

Northwest Cooperative Federation
4201 Roosevelt Way, NE
Seattle, WA 98105

ph: 206/632-4559 fax: 206-545-7131

Co-op Directory Services
919 21st Avenue S.
Minneapolis, MN 55404
(Please mail inquiries)

**United States Department of
Agriculture—Cooperative Services**

AG Box 3255
Washington, DC 20250-3255
ph: 202/720-6483 fax: 202/720-4641

**National Cooperative Business
Association**

1401 New York Avenue, NW, Suite 1100
Washington, DC 20005
ph: 202/638-6222 fax: 202/638-1374

**University of Wisconsin
Center for Cooperatives**

230 Taylor Hall
427 Lorch Street
Madison, WI 53706
ph: 608-262-3382 fax: 608/262-3251

NCB Development Corporation

1401 Eye St., NW, Suite 700
Washington, DC 20005-2204
ph: 202/336-7680 fax: 202/336-7804

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