

## Cooperative Organizational Sequence of Events

There is an established pattern to follow for cooperative organizational process that has resulted in a high level of success.

In 1996, the USDA publication “How to Start a Cooperative” codified more than a half a century of cooperative development experience in a 16-step sequence for cooperative organization. These steps are presented below.

We perceive some issues unique to this project and address how they could change the established planning sequence. This plan may take from six months to two years to develop and implement, but it is recommended that only after completion of the 15 planning steps should the cooperative commence operations.

### Recommended Organizational steps:

1. Invite leading potential member-users to meet and discuss issues. Identify the economic need that a cooperative might fill.
2. Conduct an exploratory meeting with potential member-users. If the group votes to continue, select a steering committee to guide the organizational process.
3. Survey prospective members to determine the potential use of a cooperative.  
The following list gives a general idea of the needed information:
  1. Volume of need or use in an appropriate unit of measure;
  2. Member-user experience and capabilities-years in present location, overall success, demand specific to the cooperative venture, and production and marketing success;
  3. Variety of products or services to be offered or needed;
  4. Period of need or services;
  5. Current unit value-sales price or cost per unit;
  6. Member-user--location of use or need;
  7. Familiarity with and use of cooperatives and willingness to join, finance, and use one.
4. Discuss survey results at a general meeting of all potential members and vote on whether to proceed.
5. Conduct a cost analysis study.
6. Discuss results of the cost analysis at a general meeting. Vote by secret ballot on whether to proceed.
7. Conduct a feasibility analysis and develop a business plan.  
The emerging cooperative picture now permits the development of basic operating assumptions. It should consider facilities needed, operating costs, capitalization, and financial requirements. Other key factors include wage rates, operating efficiencies, and interest rates. It should cover the cooperative's purpose, goals, and economic functions, including assumptions and financial projections for startup and at least the first 3 years of operations. Topics should include:
  1. Volume projections;
  2. Risk capital (equity) investment requirements-initial and continuing;
  3. Financing projections, including tables for monthly cash flows, annual projections of operating statements, balance sheets, and a statement of cash flow;

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4. Financial package and method of capitalization;
  5. Payment schedules;
  6. Projected patronage refunds-cash and retained; and
  7. Implementation schedule.
8. Present results of the feasibility analysis at a general meeting. If participants agree to proceed, decide whether to keep or change the steering committee members. An important aspect of the feasibility analysis is to review the sensitivity of the business to changes in volume or operating costs. Financial projections should include "best" and "worst" case scenarios to demonstrate sensitivity to changes in operating assumptions
9. Prepare legal papers and incorporate.

Every State has one or more laws authorizing the formation of cooperative corporations, although a number of them are restricted to agricultural producers. Copies may be obtained from an attorney, the Secretary of State, or State Corporation Commissioner. Several Federal laws also apply to cooperatives. The Capper-Volstead Act of 1922 provides partial exemption from antitrust laws when producers exercise their rights to act together in handling, processing, and marketing their production.

**Articles of Incorporation-** The articles indicate the nature of the cooperative business.

They usually contain the name of the cooperative, principal place of business, purposes and powers of the association, duration of the association, names of the incorporations (in most States), and information about the capital structure.

Each State has special enabling laws under which cooperatives may incorporate.

Incorporation gives the cooperative a distinct legal standing. Members generally are not personally liable for the debts of an incorporated organization beyond the amount of their investment

**Bylaws-**They state how the cooperative will conduct business and must be consistent with the State statutes and the articles of incorporation. They usually contain membership requirements; list rights and responsibilities of members; grounds and procedures for member expulsion; how to call and conduct membership meetings; methods of voting; how directors and officers are elected or removed, and their number, duties, terms of office, and compensation; time and place of director meetings; dates of the fiscal year; and the process for amending the bylaws.

**Membership Application-**This form has five main parts

1. Applicant's statement asking to become a member of the cooperative,
2. Signature of the applicant,
3. Statement of cooperative acceptance of the applicant,
4. Signatures of the president and secretary, and
5. Statement of the duties and responsibilities of the member.

The application is the legal proof that a patron is a member.

**Marketing and Purchasing Agreement-** With this document, the association agrees to accept specified product of stated or better quality, to market them to the best of its ability, and to return to members all marketing proceeds. (less deductions for expenses and continuing capital needs) The member enters into a legally binding contract to provide a specified amount of production to the cooperative. This agreement is an essential aspect of a new generation cooperative as it ensures sufficient control over products quantity and quality be delivered so that the cooperative can function.

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10. Call a meeting of charter members and all potential members to review and adopt the proposed bylaws. (Elect a board of directors at this time).
11. Convene the first meeting of the board and elect officers. Assign responsibilities to implement the business plan.
12. Hire key management team members.
13. Conduct a membership stock purchase drive.  
Members' initial risk capital investment should be large enough for them to realize they have a financial stake in the business to protect. If the investment (equity) requirement is based on volume (vs. number of members), the investment should be in proportion to their expected use.
14. Acquire capital and develop a loan application package.
15. Acquire facilities and hire employees.
16. Begin operations.  
Members provide additional amounts of risk (equity) capital as they use their cooperative. One method is through per-unit capital retains. The cooperative deducts from transactions an amount based on the value or quantity of services provided or products marketed. Another method is to retain part of the cooperative's net earnings at the end of each business year. Under both of these methods, the risk capital (equity) investments are credited to members' equity account in the cooperative's accounting system.

### **Specific Issues for a Cooperative to Organize:**

While the above outline addresses a general organizational approach, there are issues that are specific to each project that will be critical to identify and address. These issues should be considered and resolved at various points in the organization process. Votes to proceed may be necessary at these various points to maintain and strengthen producer support. Some issues that we have identified include:

### **Scope:**

Regional parochialism may be an issue that could be exacerbated by differential participation rates. Effective communication of information between geographically separate groups of producers will be very important. We know of several groups in the Southeast that have organized sufficient interest to support a project of this size.

### **Attitudes and Participation:**

Many of the independent producers in the region that would most benefit from the cooperative have developed a preference for selling in spot markets compared with the delivery obligations associated with participation in a cooperative. Substantial educational efforts may be required to address these attitudes.

### **Keys to Successful Stock Drives:**

Experience has found that hiring some top-level management prior to the organizational drive may be beneficial. There is also a wealth of experience to draw from in this area VAFAIRS can assist with these efforts.