The Cooperative Business Model & Development Process

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CFAES Center for Cooperatives

Mission: To extend knowledge and technical assistance to emerging and existing cooperatives through integration of teaching, research and Extension.
Before we get started…

This presentation is provided for educational purposes only. It is not legal advice. It is not a substitute for the potential need to consult with a competent attorney in the appropriate jurisdiction.
Part I: What is a co-op?
A co-op can be. . .

- A legal entity
- A legal structure (incorporated under other legal forms and operated cooperatively)
- A tax category
- A set of practices, values, and principles
The Co-op Business Model

“autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise.”

- International Co-operative Alliance, Statement on the Cooperative Identity

“form of business owned and controlled by the people who use its services.”

- U.S. Department of Agriculture, Understanding Cooperatives: Who Runs the Cooperative Business?
Co-ops by the Numbers

64,017 co-ops
852,843 employees

Cooperative Locations: Sectoral Composition

Sectors
- Commercial Sales, Marketing & Production
- Financial Services
- Social & Public Services
- Utilities
- Unknown

("Measuring the Cooperative Economy" 2019)
What are some words you associate with Cooperatives?
Cooperative Principles

1. Voluntary & Open membership
2. Democratic member control
3. Member economic participation
4. Autonomy & Independence
5. Education, Training & Information
6. Cooperation among cooperatives
7. Concern for Community
Part II: Why do people start co-ops?
Can you do something better as a group than you can individually?
<table>
<thead>
<tr>
<th>Ownership</th>
<th>Sole proprietor</th>
<th>Partnership</th>
<th>LLC</th>
<th>Corporation</th>
<th>Non-Profit</th>
<th>Co-op</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Individual</td>
<td>Two or more individuals or entities</td>
<td>One or more members</td>
<td>One or more shareholders</td>
<td>None</td>
<td>User members (individuals or entities)</td>
</tr>
<tr>
<td>Business purpose</td>
<td>Earn a return on owner investment; provide employment</td>
<td>Earn a return on owner investment; provide employment</td>
<td>Earn a return on owner investment</td>
<td>Earn a return on owner investment</td>
<td>Provide services or information</td>
<td>Meet member needs; returns on member investment</td>
</tr>
<tr>
<td>Membership requirements</td>
<td>Determined by owner</td>
<td>Determined by partners</td>
<td>Determined by members</td>
<td>Stock purchase. Established in founding documents.</td>
<td>Membership fee in some cases</td>
<td>Stock purchase or fee payment. Established in bylaws.</td>
</tr>
<tr>
<td>Financing</td>
<td>Owner investment, retained profit</td>
<td>Partners’ investment, retained profit</td>
<td>Members’ investment, retained profit</td>
<td>Sale of stock, retained profit</td>
<td>Grants, contributions or fees</td>
<td>Membership; retained profit</td>
</tr>
<tr>
<td>Voting</td>
<td>Partners in proportion to investment or according to agreement</td>
<td>Members, often in proportion to investment</td>
<td>One vote per share</td>
<td>One vote per share</td>
<td>One-member, one-vote</td>
<td></td>
</tr>
<tr>
<td>Management/Governance</td>
<td>Owner or hired management</td>
<td>Partners; in a limited partnership, general partner</td>
<td>Members according to agreement or hired management</td>
<td>Board of directors and hired management</td>
<td>Board of directors and hired management</td>
<td>Board of directors and hired management</td>
</tr>
<tr>
<td>Benefits/Profits</td>
<td>Proprietor</td>
<td>Partners, usually in proportion to investment</td>
<td>Members according to agreement</td>
<td>Shareholders in proportion to investment</td>
<td>Retained by organization</td>
<td>Members in proportion to “use”</td>
</tr>
</tbody>
</table>
Advantages

Shared knowledge

Pooled resources
• Economies of scale
• Market access
• Bargaining power
• Reduce individual risk

Member control
• Accountability to members
• Member benefit

Limitations

Control and Profits
• Is everyone willing to share?
• Does it make sense to share?

Financing
• Co-ops are organized for member benefit. Not to maximize profit.

Complexity
Forms of Cooperative Ownership

- Producer Cooperative
- Consumer Cooperatives
- Worker Owned Cooperative
Members

Board of Directors

Manager

Employees
Governance: Board of directors

- Represent members
- Establish policies
- Hire and supervise management
- Acquisition and preservation of assets
- Preserve cooperative character
- Inform members
- Assess co-op’s performance
Cooperative Development Process

- Identify the mutual economic need among your group
- Understand the marketplace, potential member use, and the feasibility of an enterprise
- Develop a business plan
- Create a governance structure and train new leaders and members
- Acquire capital, implement business plan
Continue your co-op learning!

go.osu.edu/coopmastery
How Can We Help?

- Formation Counseling
- Business Planning
- Feasibility Activities
- Strategic Plan Development
- Policy Development
- Membership Trainings
- Community Trainings
- Board Education
- Steering Committee Facilitation
- Resource Likages

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Questions?
Cooperate with us

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References