

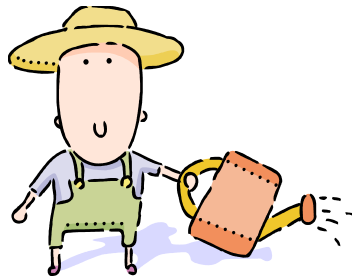
Key Steps to Start a Co-op



Margaret M. Bau
Cooperative Development Specialist
USDA Rural Development
Madison, Wisconsin

Once in a Lifetime Event!

- **Co-op pioneers need passion for:**
 - **Industry**
 - **Co-op way of business**
- *As co-op developers, we're honored to help people build their dream!*
- **Ask - Will the proposed co-op make a significant difference in members' lives?**



Organizing a Cooperative



Start Up



3 Months

2 Years

Ways to Form a Co-op

- **Member Initiated**
 - Idea dreamed up and explored by the eventual members of the co-op
- **Incubated Co-op**
 - Idea incubated by a development group and transplanted among recruited members



As a co-op developer, steps to take when working
with a

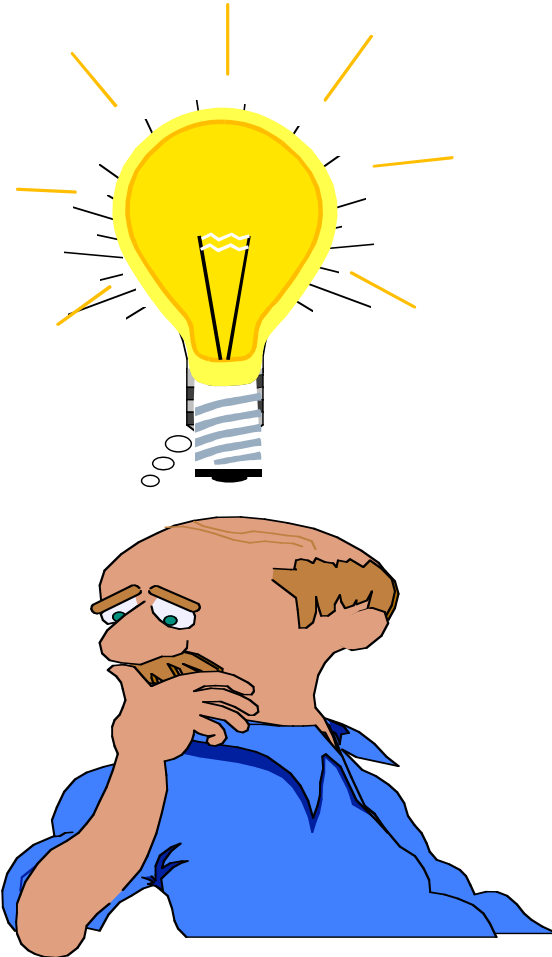
Member Initiated Co-op



It All Starts With...

Idea!

**Could a group
effort address
the issue?**



Explore the Idea

**What is the
business concept?**

**Is a co-op the best
structure to meet
our shared need?**



Discuss the idea in a “Margaret Mead” group

“Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it’s the only thing that ever has.”



-Margaret Mead

Gather Information

- **Co-op structure**
 - What is a co-op? Co-op vs LLC?
 - Other co-ops in industry and region
 - Co-op principles and values
 - Ownership culture, participatory democracy
- **Discuss your mission and values**
- **Identify resources**
 - Project coordinator, co-op and biz consultants
- **Define the business concept**



Key Questions

- **Sound business idea?**
- **Advantage to work as a group rather than alone?**
 - **Co-op model the best structure?**
- **Idea worth doing?**
 - **Time, resources, and energy**
 - **Business, not a hobby**



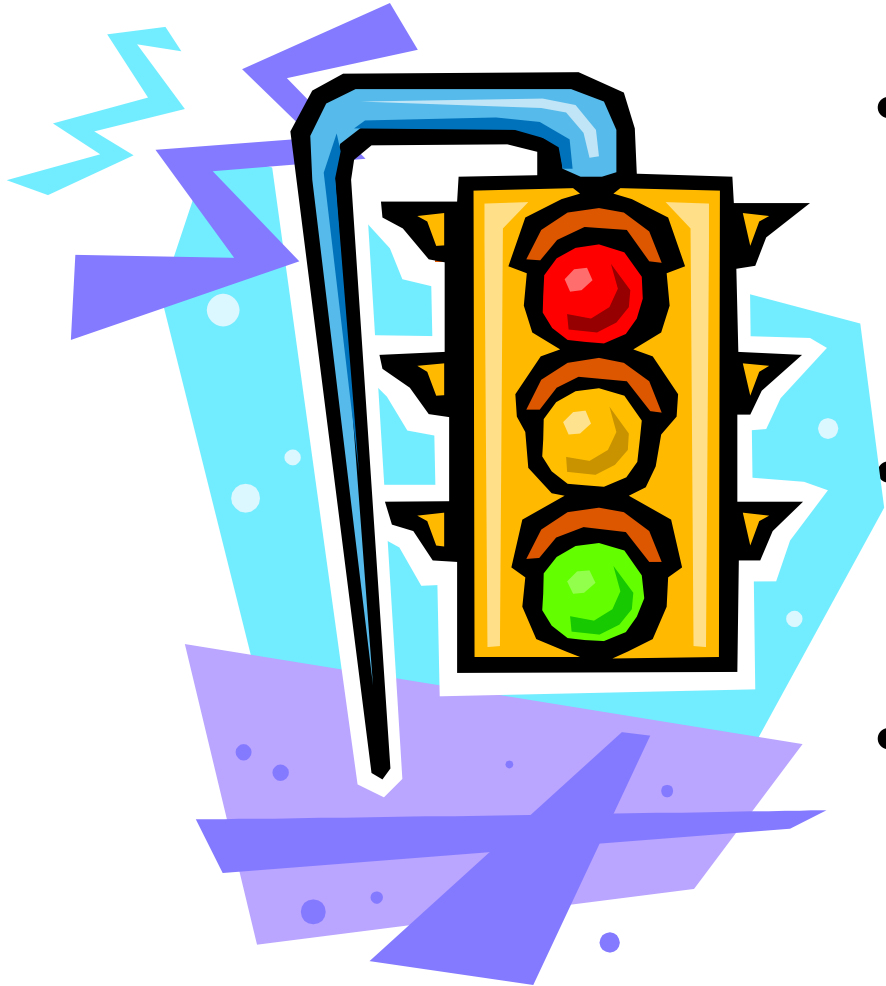
Exploratory Meeting

At your discretion, depending on the project

- **Present the concept to a wider group of potential members**
- **If interest exists, form a steering committee**
- **Ask for earnest money**
 - **Cover organizing expenses**
 - **Best indicator of commitment**



Decision Point



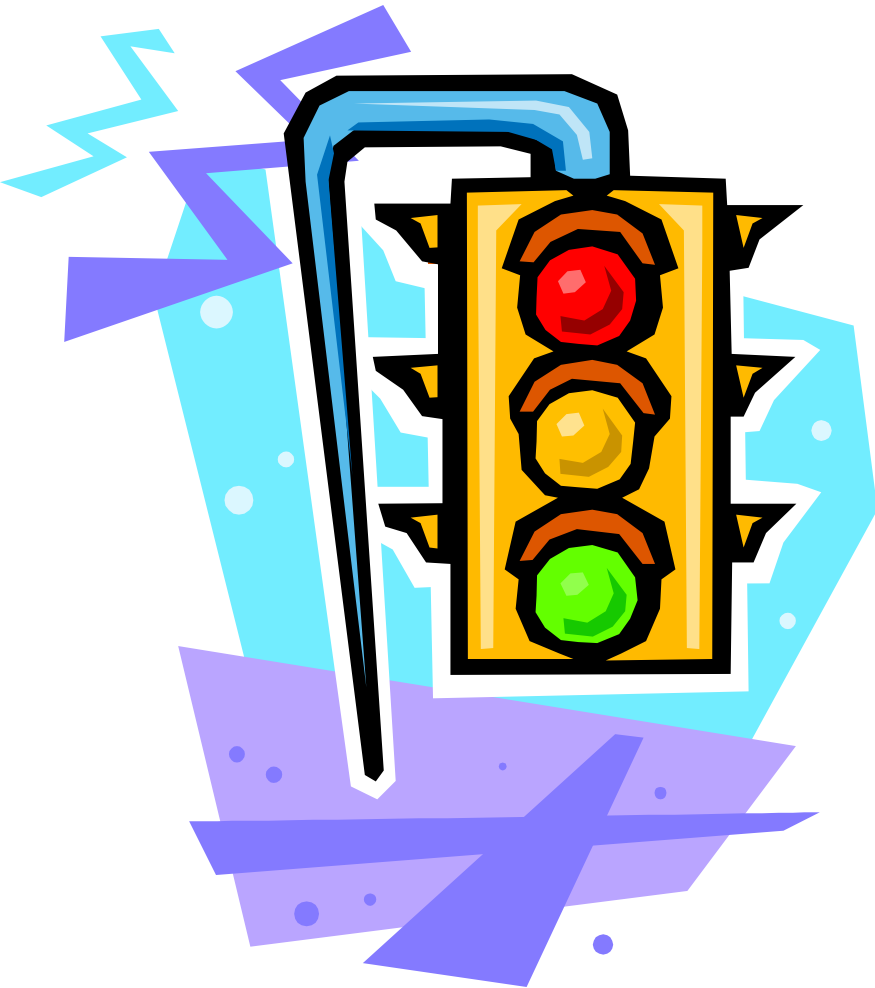
- **If...**
 - Proposal is realistic
 - Co-op is a possible solution
 - People show interest
- **Then...**
 - Proceed to analyzing business viability
- **If not...**
 - **STOP**

Analyze Business Viability

- **Feasibility study**
 - Examination of the industry
- **Business plan for your venture**
 - Organizes your thoughts
 - Rationale to members for equity drive and lenders for borrowing money



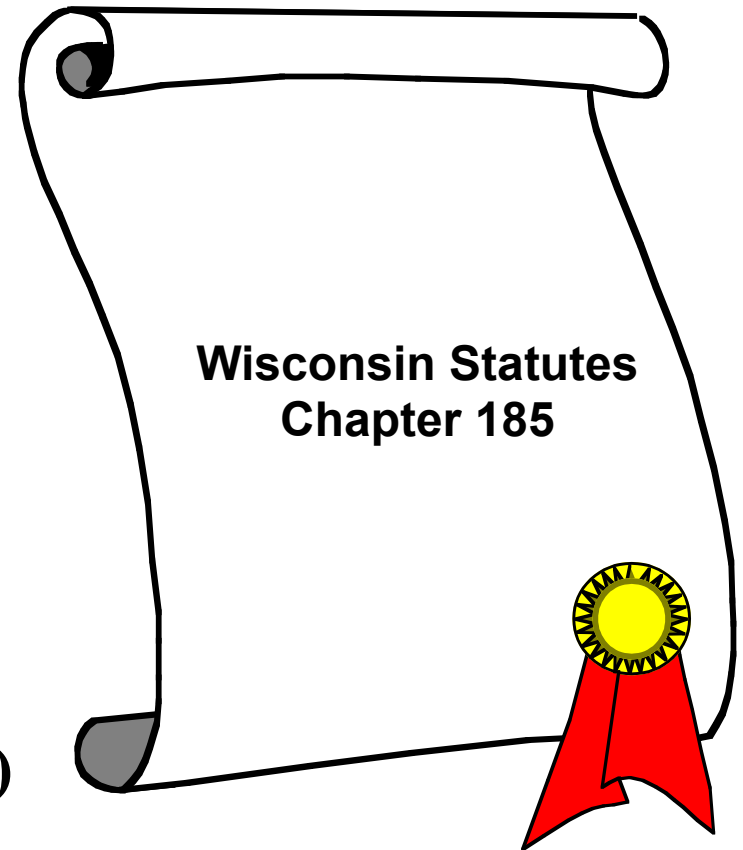
Decision Point



- **If...**
 - **Market potential is sufficient**
 - **Member participation is sufficient**
 - **Capitalization chances look reasonable**
- **Then...**
 - **Proceed to incorporate**
- **If not...**
 - **STOP**

Legal and Policy Documents

- **Draft and adopt bylaws**
- **Select incorporators**
 - usually steering committee
 - will serve as the interim board
- **Incorporate with your state**
- **Develop policies and controls**
 - Accounting checks and balances
 - Membership agreements
 - Board policies (conflict of interest)
 - Personnel policy handbook



Organizational Meeting



- **Present business plan and answer questions**
- **Adopt bylaws**
- **Elect Board of Directors**
- **Collect member fees**

Funding a Co-op

- **Membership fees**
 - Initial
 - Annual fees
- **Transaction fees**
 - Per unit retains (i.e. 5% surcharge on each item sold)
 - Hourly withholding (worker co-ops)
- **Equity drive**
 - Common stock to members
 - Preferred stock
 - to members and investors (friends, family)
 - very limited voting rights
 - Up to 8% return (mostly 4-5% interest)
- **Subsidized loans, grants**
- **Commercial rate loan**



Business Start-Up

- **Immediate tasks after incorporation**
 - Tax ID number
 - board & business insurance
 - any licenses
 - workers compensation
- **Hire manager**
 - Manager hires other employees
- **Acquire facilities, equipment**



Begin Operations

This is just the beginning...



Get Co-op on It' s Feet

- **Board training - foster long term thinking**
 - Good board behavior and policies
 - Strategic plan
 - Annual manager review
 - Board self-evaluation
- **Member education and involvement**
 - Require co-op education for membership
 - Committees, conference calls
- **Annual membership meeting**
- **Stay profitable!**

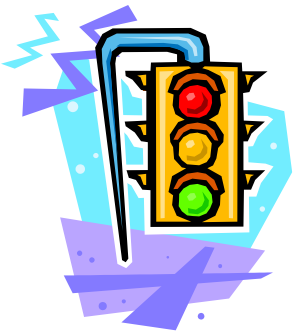


Incubated Co-op



Incubating a Co-op...

- **Sponsoring organization comes up with idea:**
 - Picks industry, does feasibility study
 - Conducts market analysis and business plan for proposed co-op sites
 - Figures out financing
 - Go/No Go decision point
- **If go - Sponsor recruits members to proposed co-op**



Next steps for the co-op developer

- **Recruitment of potential co-op leaders**
 - Identify potential leaders within the future co-op
 - Personally invite leaders to participate in the process
- **Present concept to wider group of potential members**
 - Conduct a potential membership survey (skills, desires)
- **Form a steering committee of potential members**
 - Step by step tasks, co-op training, trust building
 - Agree upon bylaws and co-op policies; incorporate
 - Elect board, raise member equity, hire manager
- **Will need ongoing care**
 - Intensive board, membership training
 - Help with financial oversight, personnel, policies



Examples of Incubated Co-ops

- **Co-op development in a specific industry**
 - *Worker co-ops:*
 - Arizmendi bakeries
 - WAGES house cleaning
 - *Consumer:*
 - Rural electric (1930s Rural Electric Administration)
 - ROC manufactured housing parks
 - Federated Human Services (people with disabilities)
- **Co-op development in a region**
 - Evergreen Co-ops – variety of businesses serving anchor institutions in inner city Cleveland



Funding Sources for Centers Taking an Incubated Co-op Approach

- **Grants**
 - Traditional nonprofit approach
 - Initial concept
 - New center
- **Pay it forward**
 - Each co-op tithes 10% of earnings
 - Support services (administrative support, R&D)
 - future development of other co-ops
 - Used in Mondragon, Arizmendi, and Cleveland
 - Long term sustainability



For More Information

Margaret Bau

Co-op Development Specialist

USDA Rural Development

(715) 345-7600 ext. 171

Margaret.Bau@wi.usda.gov

