

## **KEYS TO SUCCESS AND POTENTIAL PITFALLS**

Most books on starting new businesses identify several important keys to successful start-ups. In addition, cooperatives have their own requirements. The suggestions below are adapted from USDA's Rural Business/Cooperative Service and other sources.

### **1. Use advisers and committees effectively.**

Do not hesitate to make use of available expertise on cooperative development, legal services, and other advisers. It is not usual to have all the expertise needed on the steering committee; most co-op start-ups need to rely on outside assistance.

### **2. Keep members informed and involved.**

Management should take seriously its responsibility to communicate regularly with and help educate members. The board must allocate the necessary resources to meet these functions. When members participate in their co-op, they are more likely to feel some ownership in it and some responsibility for its success. Many co-ops begin to falter when the members stop asking questions or attending meetings.

### **3. Maintain good board-management relations.**

Each needs to clearly understand their roles and responsibilities. The board is responsible for setting policy, employing the manager, and providing adequate financing for the co-op. The board should not attempt to carry out the day to day activities of the co-op.

### **4. Conduct business-like meetings.**

A chairperson should be chosen who has some experience in facilitating business meetings. Use parliamentary procedures to promote orderly and democratic decision making. Plan meetings in advance, set an agenda, and stick to it.

### **5. Follow sound business practices.**

Standard accounting practices should be followed, financial reports should be prepared and presented to the board, the membership must be kept informed, and the board and managers should engage in long-term strategic planning. Good management is necessary to control costs and monitor finances.

### **6. Forge links with other cooperatives.**

Alliances with other cooperatives may be valuable sources for supplies or marketing outlets. Try to learn from their mistakes if they have been in business longer than your co-op. Obtain a membership in national or state cooperative associations.

*An understanding of not only the tangible factors such as financial risks, costs and benefits to potential members must be reached, but the less tangible factors such as mutual respect, trust and confidence in the group leadership must be established.*

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## **Potential Pitfalls for New Cooperatives**

### **1. Lack of a clearly defined mission, purpose and focus.**

Make sure that the co-op has a clear mission statement and definite goals. Many businesses flounder because there is no clarity about what it is supposed to accomplish. In addition, members must share a common vision and have general agreement about how to get there.

### **2. Inadequate feasibility study and/or business plan.**

Do the nitty-gritty research that is necessary to determine whether your business idea will float. Then invest in a quality business plan before start-up. Don't make the mistake of overestimating the co-op's sales or underestimating the co-op's operating expenses. Your assumptions must be based on research, conducted or reviewed by someone with experience in feasibility analysis. If this work has been solid, it is possible for the co-op to weather some short-term storms on its way to long-term success.

### **3. Failure to use experienced advisors and consultants.**

Most people who get involved in starting a new co-op do not have cooperative development experience. Getting assistance, even if it costs money, from advisors who have been down this road before can save a lot of time and money.

### **4. Lack of member leadership.**

Leadership must come from within the group. The lack of competent leadership can result in a growing lack of confidence among prospective members, which will spell doom for the co-op.

### **5. Lack of financial commitment from members.**

The co-op must have sufficient support from its members, and the leadership team must conduct an effective equity drive. No co-op can be a success without a strong capital base. Co-ops exist to meet members needs. If members are unwilling to commit to the co-op and provide the financial support necessary to get it started, why should it stay in business?

## **6. Lack of competent management.**

The day to day operation of the co-op must be left in the hands of qualified management. Although cooperatives by nature are collaborative entities, a co-op's success depends more on the manager than on any other individual. It is equally important for the board to compensate a manager adequately, using performance incentives if possible, and to establish clear goals and objectives for management.

## **7. Failure to identify and minimize risks.**

Risks are inherent in any new business. However, the co-op's risks can be minimized by carefully studying the competition, pertinent government regulations, environmental issues, big picture economic forces, and industry trends.

## **8. Lack of adequate financing.**

Most new businesses are underfinanced. Reasons for this include faulty assumptions in the business plan, inefficiencies in start-up, and a variety of delays. Adequate financing, from both members and lending institutions, is necessary to survive the first few months of operations when most of these issues arise.

## **9. Inadequate communications.**

Lack of information or getting incorrect information can create apathy or suspicion among members, suppliers, and investors. It is critical that the board take responsibility for seeing that good communication is maintained, especially during the early phase of a co-op's operations.

*Despite the considerable imperfections common to humankind, co-ops still provide an opportunity to have faith in like-minded people. This faith is an essential element in cooperation and adds considerable business strength and efficiency to the organization. It is the ultimate corporate culture.*

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