How Cooperatives Work: Creative Models to Increase Profits

Peggy Fogarty-Harnish

Penn State is committed to the affirmative action, equal opportunity, and the diversity of its workforce.
Legal Forms of Business

- Sole Proprietorships
- Partnerships
  - General Partnership
  - Limited Partnership
- Corporations
  - General Corporation
- Limited Liability Company
- Cooperatives
Why Business Structure Matters

- Defines who owns the business
- Clarifies management and how decision are made
- Organizes how earnings are distributed
- Protects personal assets
- Impacts taxation
Why choose to form a Cooperative?

A business owned and controlled by the people who use its services.

- User Owner
- User Control
- User Benefit

The primary difference between cooperatives and other types of businesses is the objective. A cooperative seeks economic benefits for its members. While the investor owned business has the objective to make profits for its investors, cooperatives exist to meet member needs economically and efficiently.
Cooperative History

In 1752, Benjamin Franklin helped start what is considered the first formal cooperative business in the United States, The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. This insurance cooperative continues operation today.

In 1785, the first attempt at an agricultural cooperative was made by American Farmers who formed the Philadelphia Society for Promoting Agriculture.

The current cooperative principles originated from "rules of conduct and points of organization" established by the Rochdale Society, founded in 1844. Twenty-eight poor weavers living in the factory town of Rochdale, England, formed their own cooperative store to buy supplies of flour, butter, sugar, oatmeal, and a few other staples. These pioneers set down some basic guidelines for cooperative operation called the Rochdale Principles. With some revision, these principles are still the ones used by cooperatives today.
Cooperative Principles

Adopted in 1996 by the International Cooperative Alliance

- **Open, Voluntary Membership**: Membership in a cooperative is voluntary and nondiscriminatory.

- **Democratic Control**: Each member receives one vote. This is in contrast to other corporations where the number of shares owned determines voting power.

- **Member Economic Participation**: Members contribute to, and democratically control, the financial resources of their cooperative.

- **Autonomy & Independence**: Cooperatives are independent, self-help organizations controlled by their members.

- **Continuous Education**: Cooperatives provide education on the principles and practices of cooperative business so that members will be good decision makers and so the general public will better understand cooperatives.

- **Cooperation Among Cooperatives**: Cooperatives work together at the local, regional, national and international levels to further economic democracy.

- **Concern for Community**: Cooperatives work for the sustainable development of their communities through policies accepted by their members.
**Types of Cooperatives**

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Consumer Cooperatives</strong></td>
<td>are owned by the people who buy the goods or use the services of the cooperative.</td>
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<tr>
<td><strong>Producer Cooperatives</strong></td>
<td>are owned by people who produce similar types of products and collectively market them to improve their incomes.</td>
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<tr>
<td><strong>Worker Cooperatives</strong></td>
<td>are owned and governed by the employees of the business.</td>
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<tr>
<td><strong>Purchasing/Shared Services Cooperatives</strong></td>
<td>are owned and governed by independent business owners and government agencies that band together to enhance their purchasing power.</td>
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Co-ops range in size from small store-fronts to large Fortune 500 companies. In the U.S., there are 48,000 co-ops serving over 130 million members; two of every five citizens belong to a co-op.

Worldwide, some 750,000 co-ops serve 800 million members. In many ways, they're like any other business; but in several important ways they're unique and different.
Types of Cooperatives

**Consumer Cooperatives**
- housing, electricity and telecommunications, credit unions, healthcare, childcare, and funeral services.

**Producer Cooperatives**
- farmers, craftsmen, artisans

**Worker Cooperatives**
- food stores, processing companies, restaurants, taxicab companies, sewing companies, timber processors and light and heavy industry.

**Purchasing/Shared Services Cooperatives**
- independent business owners, small municipalities and, in some cases, state governments that band together to enhance their purchasing power.
How Cooperatives are structured:

- Complex to Organize: Articles of Incorporation and Bylaws Required.

- Responsibility for management and control is held by Board of Directors.

- Liability of Owners is the owner’s (shareholder’s) investment.

- Taxes are passed onto shareholders.

- Existence is tied to its’ member-owners.

- Capital is raised by direct contributions, retained earnings, per unit retains, or by borrowing.
Cooperative Development
- Identify Need / Agree on Mission
- Evaluate Feasibility
- Good Business Plan
- Develop Leadership
- Capitalization
- Management

Steering Committee
- Guides the development process
- Keeps minutes of its meetings
- Conducts the initial feasibility analysis and due diligence process
- Oversees the incorporation process and serves as the incorporators
- Develops by-laws for organization
- Establishes the first Board of Directors according to the by-laws
Our premise is that cooperatives are tools for development and should promote both social empowerment and economic goals.

We do this by providing education, research, networking, and development services to our members.

All our members are engaged in cooperative development activities. We believe that established cooperative centers should assist emerging cooperative centers to develop.

We agree that there are essential steps that must be taken along a critical path to succeed in cooperative development.

73 Cooperative Development Centers and Practitioners
www.cooperationworks.coop
Producer Cooperative
My Story

CSA farm started in 1999 with 25 shares
Grew to 125 shares by 2005
Raised 50 different crops for 25 week harvest
Offered community events and programs
Trained many young interns
Producer Cooperative

My Story

People
Planet
Profits
Triple Bottom Line

Customer Service
Sales
Bookkeeping
Transportation
Labor
Complex cropping system
No time for other markets
Lancaster Farm Fresh Cooperative

Started in 2006 with 15 farms, now 75 Small Family Farm Members in 2011

- **Products**
  - Fresh, local, organic produce, fruit, herbs & flowers
  - Grass-fed animal meat & dairy products
  - Small batch value added products

- **Customer Services**
  - Distribution from NY, Phila., Baltimore, DC, Eastern PA, NJ
  - Wholesale to retail, food co-ops, restaurants & institutions
  - Community Supported Agriculture (CSA)
  - Buying Club
  - Year round service
  - Professional sales staff
  - One stop shop
Lancaster Farm Fresh Cooperative

• Services to Farmers Include
  • Sales & Marketing
  • Transportation
  • Warehousing
  • Purchasing
  • Business Support
    • Record Keeping & Planning
    • Product Development
    • Farmer Education

Efficiency
Shared Costs
+ Economy of Scale
Greater Profits
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Keystone Development Center
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