

Co-op 101

A primer for people considering
creating a business that operates
as a democratic association

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Welcome to this tutorial on starting a cooperatively owned enterprise.

This guide will likely be most useful for groups seeking to start a co-op with members being consumers of a product or service OR as producers of a product or service (including worker owners). This model does not address issues of housing development or conversion of existing businesses to cooperative ownership; other models are more appropriate for that work.

The guide has four chapters, and includes additional resources listed at the end.

What is a co-op?

Cooperatives (“co-ops”) function in many different sectors and take on many different forms, but all share some common themes:

- A group of people have a common need.
- They address that need through a business solution that they intend to support through their participation.
- The business is democratically governed, and all members benefit in proportion to their use of the enterprise, not based on their investment.

Chapter 1: Laying the foundation for the project



A diverse collection of interested parties...

...have a shared need or desire for goodies.

They form a steering committee and begin to define their vision.





Creating THE STEERING COMMITTEE— the “dream team”

The responsibility of the Steering Committee is to articulate and refine a vision for the co-op; the Committee then holds that vision in trust for its eventual owners.



THE STEERING COMMITTEE is not responsible for ensuring that the business is formed. Rather, the Committee should be committed to using good judgement and business practices to assess whether the business is likely to be viable, and if so, to present a matured business plan to a group of potential member-owners.



THE STEERING COMMITTEE: The Champion

- **Must include at least one person with passion for the project who will keep the Committee on track.**
- **Sometimes there are two champions at a time, or different people playing the role of champion at different times. But one champion must be always present.**



THE STEERING COMMITTEE: The Dream Team

- **Surrounds the champion with people whose skills and relationships are relevant to the intended projects.**
- **Possesses the integrity and ability to secure the trust of potential future owners. This is critical!**

Steering Committee

Pre-feasibility Analysis & Vision Creation

OBJECTIVE:

The Committee's first task is to increase its knowledge about the potential venture through pre-feasibility analysis.

This might involve internet research, visits to other co-ops or similar businesses, gathering of other industry information and so forth.

Following pre-feasibility analysis, the steering committee should create a vision statement that reflects the desires of the group. This initial vision will be revised as new information is identified, but it will serve to guide the development process.



OBJECTIVE:

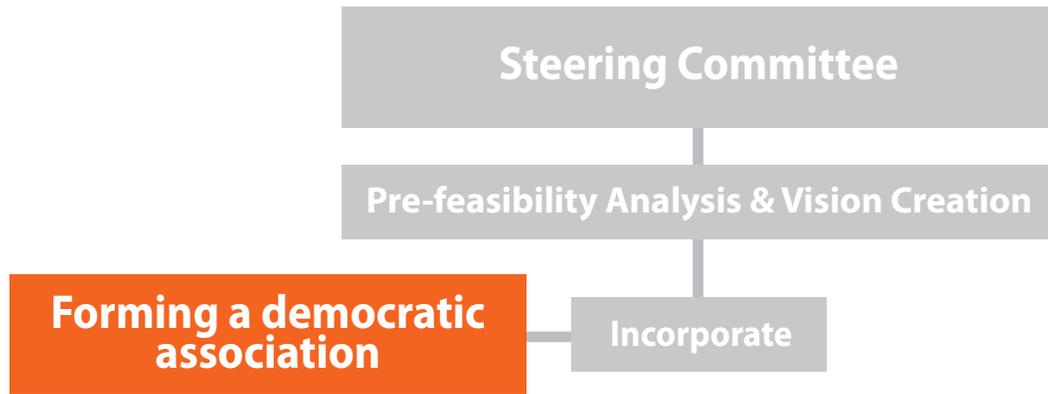
An early decision is when to incorporate the business. CDS typically recommends early incorporation using a very basic set of articles and bylaws, which should be reviewed by appropriate legal counsel.

Issues of securities registration should also be addressed with legal counsel.

The Committee can get a Tax Information Number, open a bank account, and conduct business in its own name; its reasonable business decisions are protected by the “corporate veil”.

If the group prefers, incorporation can also be done after completion of the business plan.

Chapter 2: Building the democratic association

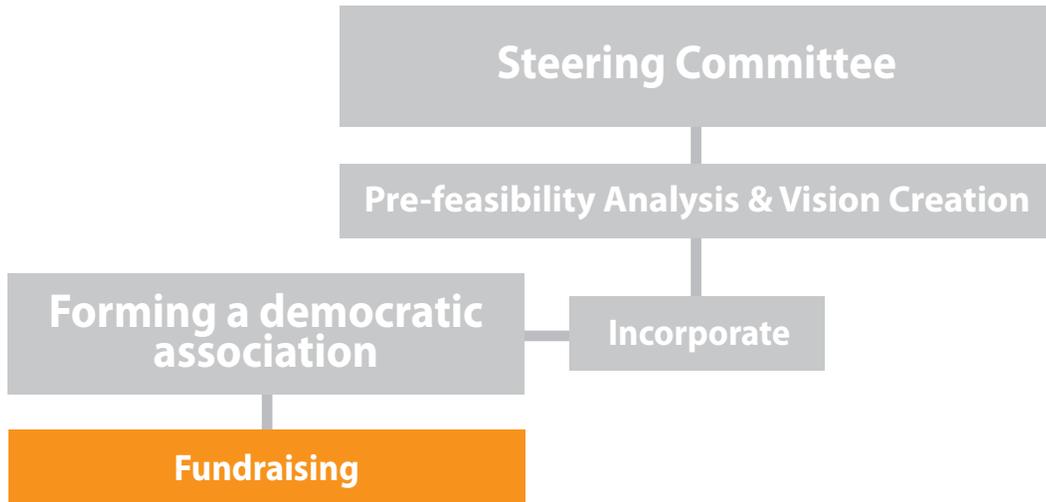


OBJECTIVE:

This step involves growing awareness of the co-op's vision and work; supporting communication with and education of existing and potential members; and maturing an audience of sufficient size to receive the business plan and make informed decisions about investing equity into the business.

The culture of the co-op is being created in these early stages of development. Therefore, it is important to:

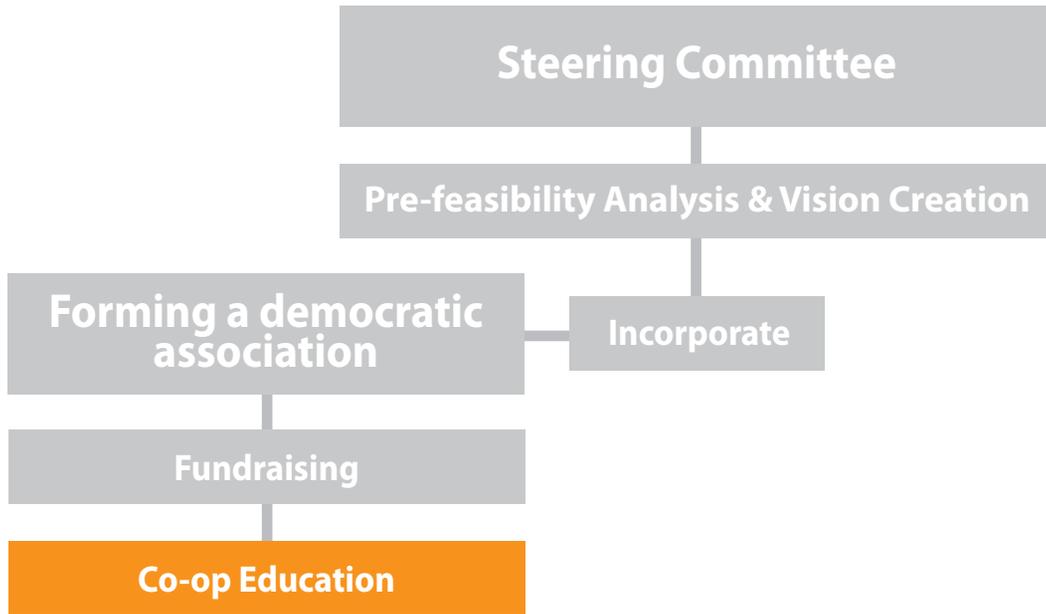
- educate about the cooperative model, values and principles
- practice and model inclusive and transparent decision-making
- grow the leadership capacity of members



OBJECTIVE:

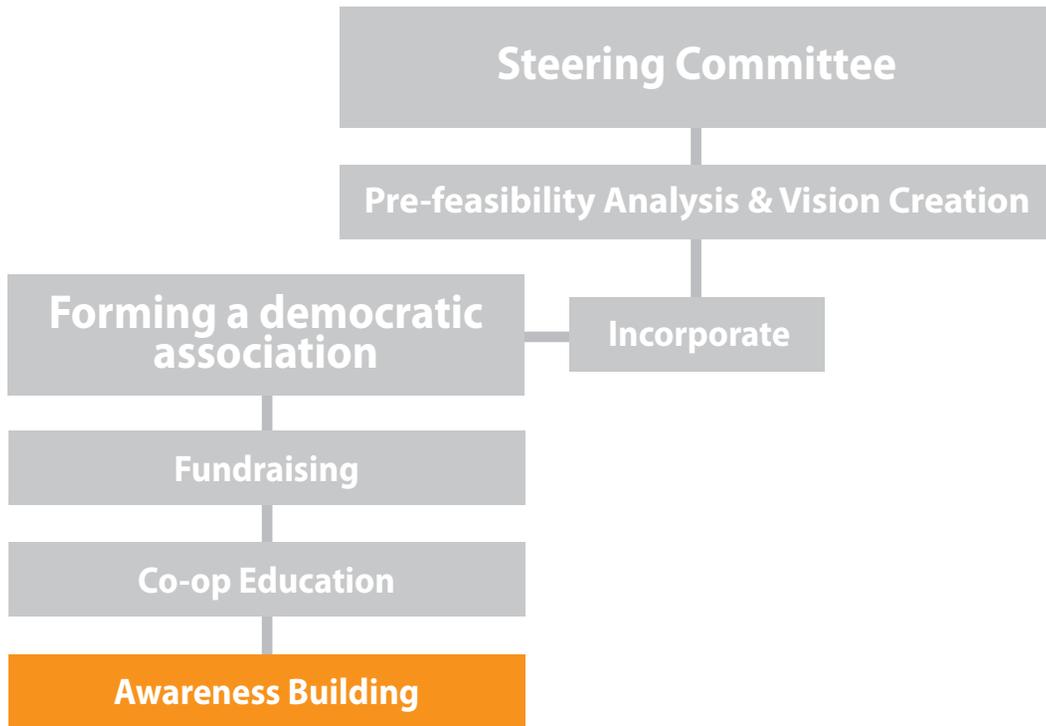
To raise resources to support the business development process.

These resources might include the purchase of membership shares, securing donations, grants, or other capital needed to support the development process. (Note: these funds are different from the needs to capitalize the co-op itself; that is addressed later).



OBJECTIVE:

To provide initial understanding of the co-op business model, cooperative values and principles and help potential members determine if this model appeals to them.

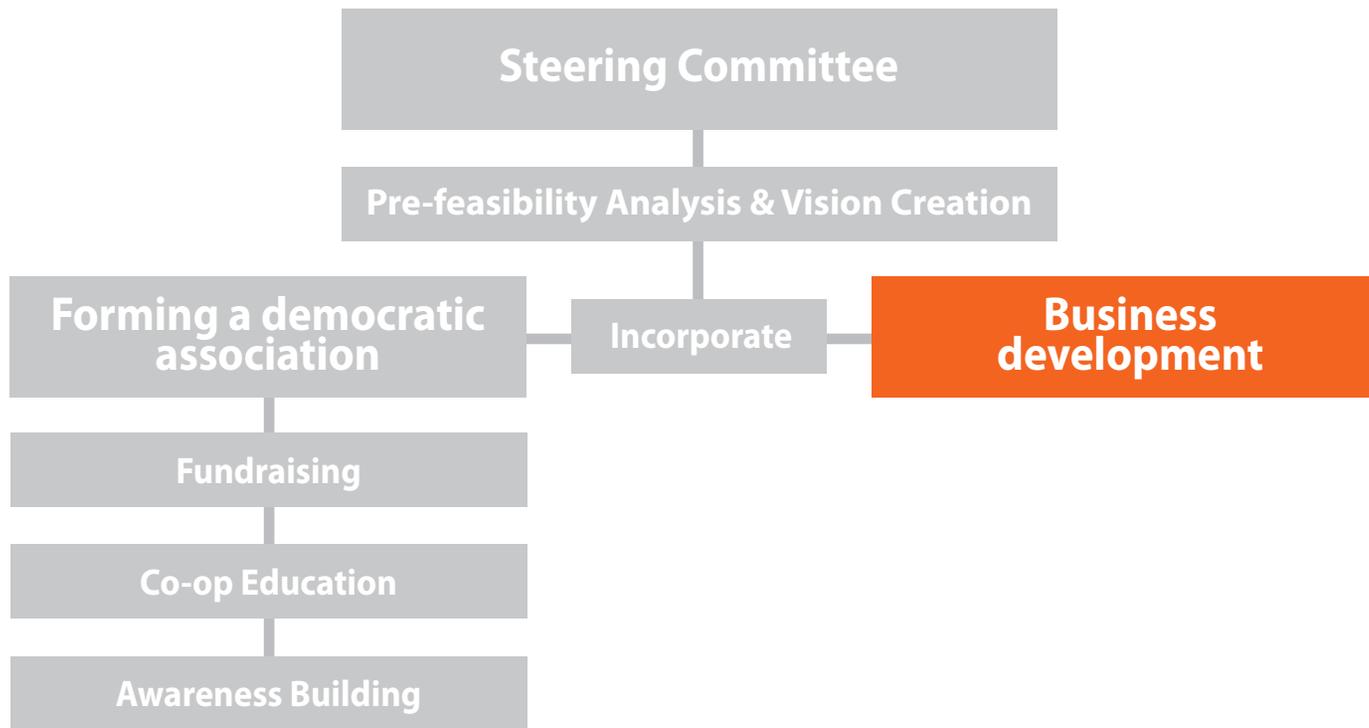


OBJECTIVE:

To grow the potential, knowledgeable membership base for the organization.

Tasks might include setting up websites, listservs, newsletters and social media; hosting community gatherings; generating public relations coverage, etc.

Chapter 3: Assessing the business opportunity

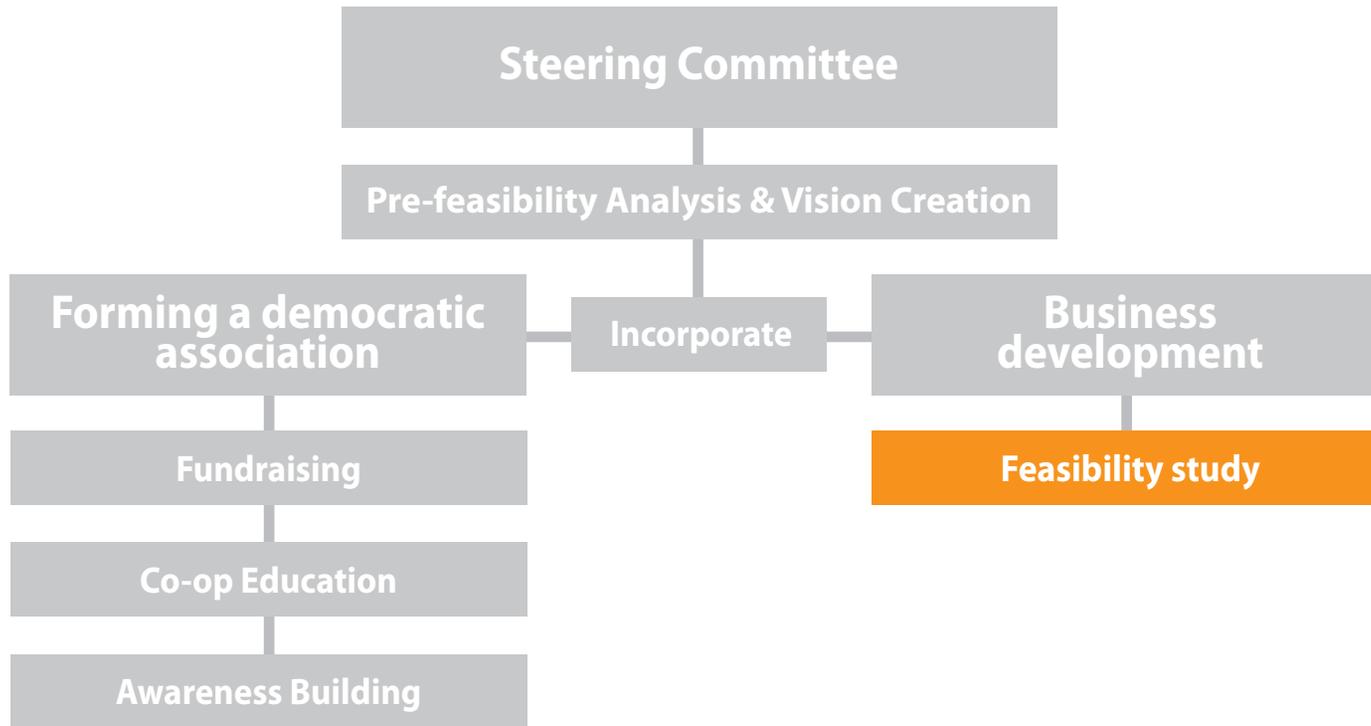


OBJECTIVE:

To assess the viability of the business concept.

The process of business assessment for a co-op is not conceptually different from the processes used in other business forms.

The ultimate goal is to use sound analysis and data to make a business case that member-owners can effectively own, operate and govern a business that addresses the membership's shared need and that is consistent with the vision of the steering committee.

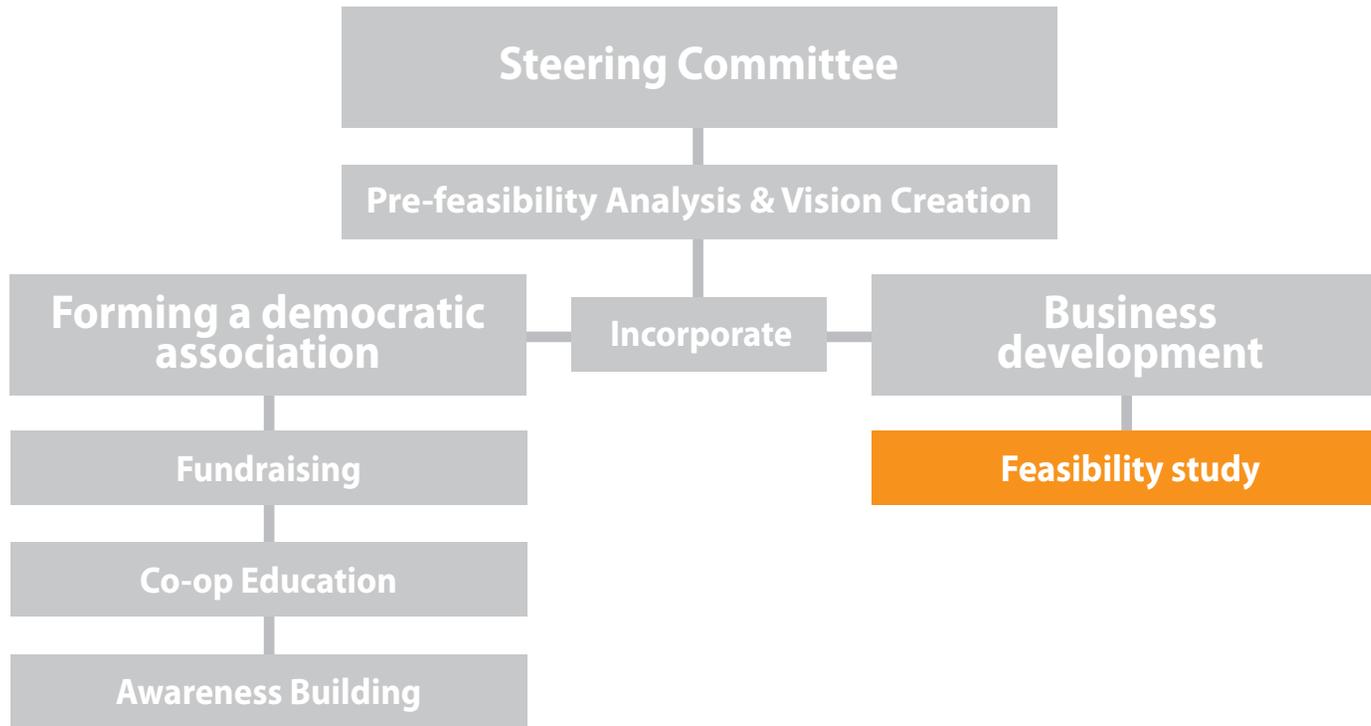


OBJECTIVE:

To determine if there is at least one set of conditions under which the goal can be achieved.

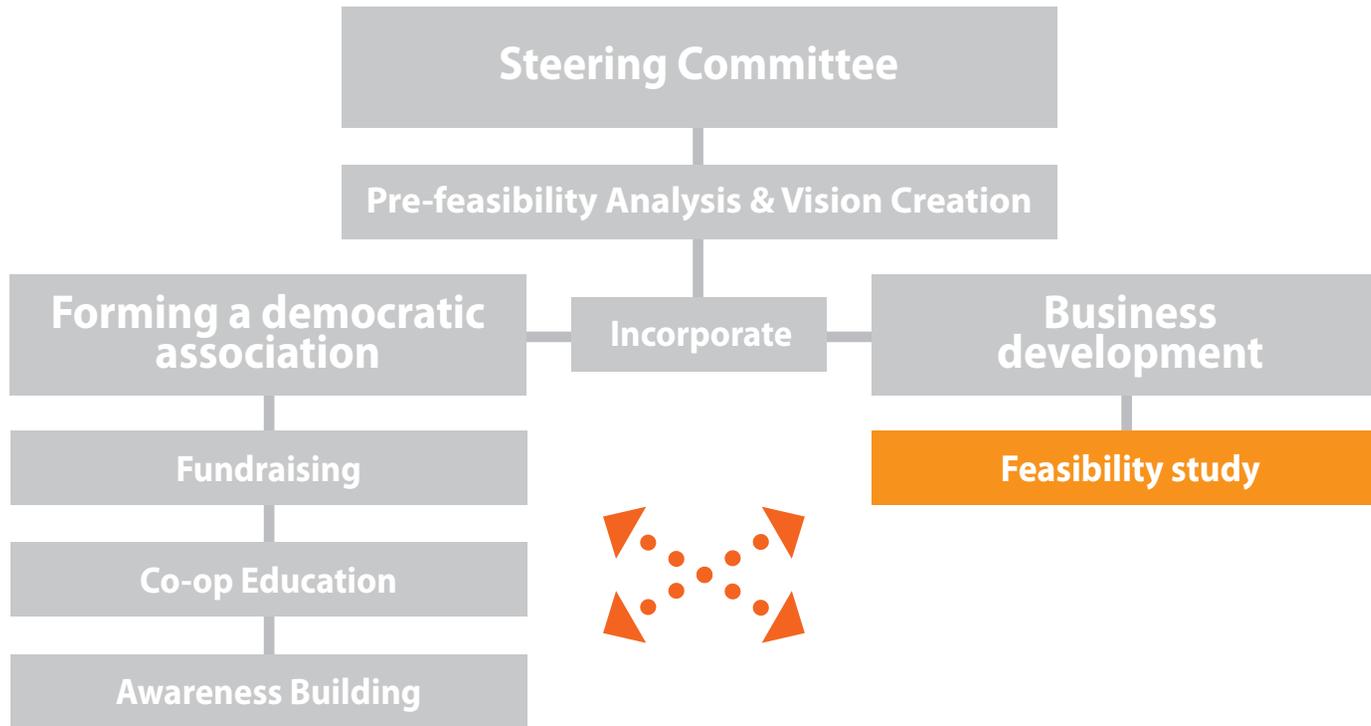
An important distinction in co-op feasibility assessment is that market or supply feasibility includes an assessment based on expected use of the business by the co-op's owner-members.

Feasibility studies are generally done by third parties.



ELEMENTS:

- **Market Feasibility:** Market analysis, competitive analysis.
- **Operational Feasibility:** Management, labor, site suitability, materials supply, and other aspects of operations.
- **Technical Feasibility:** Proprietary technology, “tried and true”, intellectual property.
- **Financial Feasibility:** Pro Forma statements, including projected balance sheets, income statements, cash flow statements, sources and uses of funds, financial assumptions and Return on Investment/payback.

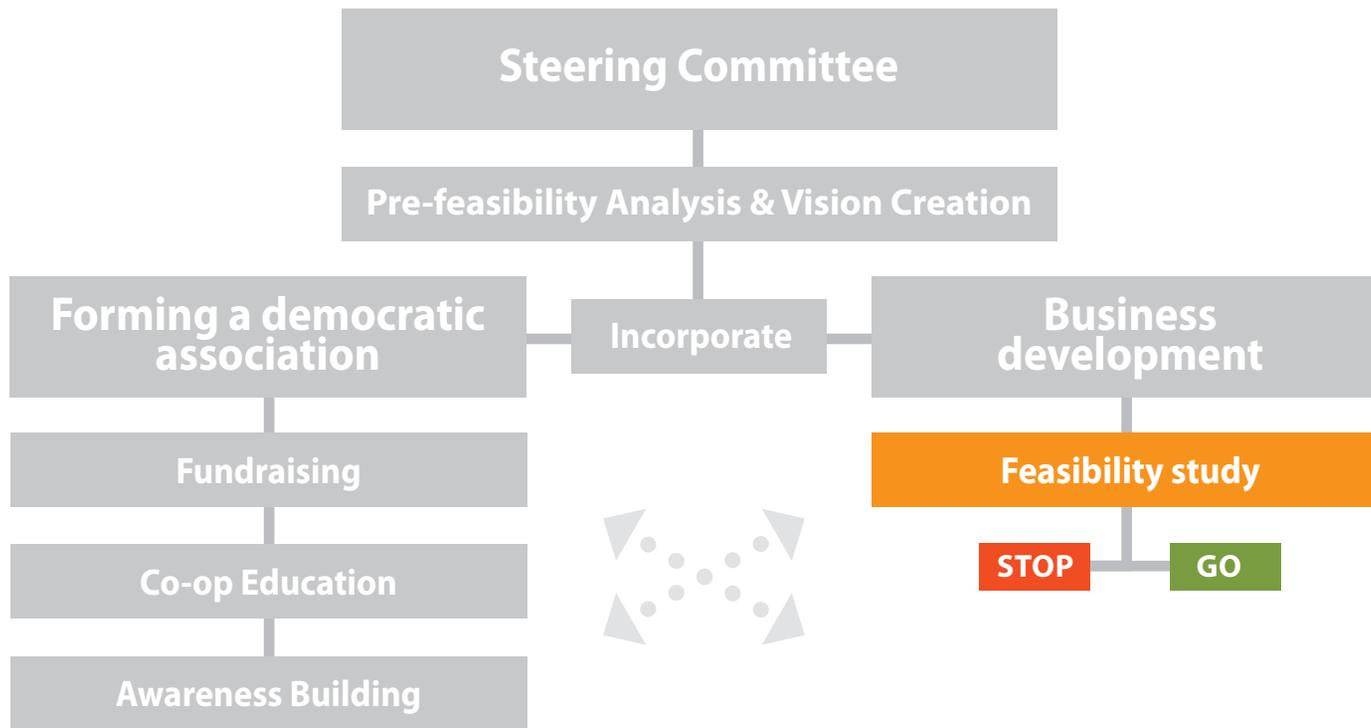


PARALLEL BUT LINKED PROCESSES:

Forming the Democratic Association and Business Development appear in separate columns; they are carried on simultaneously and create opportunities for communication and interaction.

Changes or refinements in vision need to be addressed in revised business planning. Similarly, business development findings may require the steering committee to refine/revise vision.

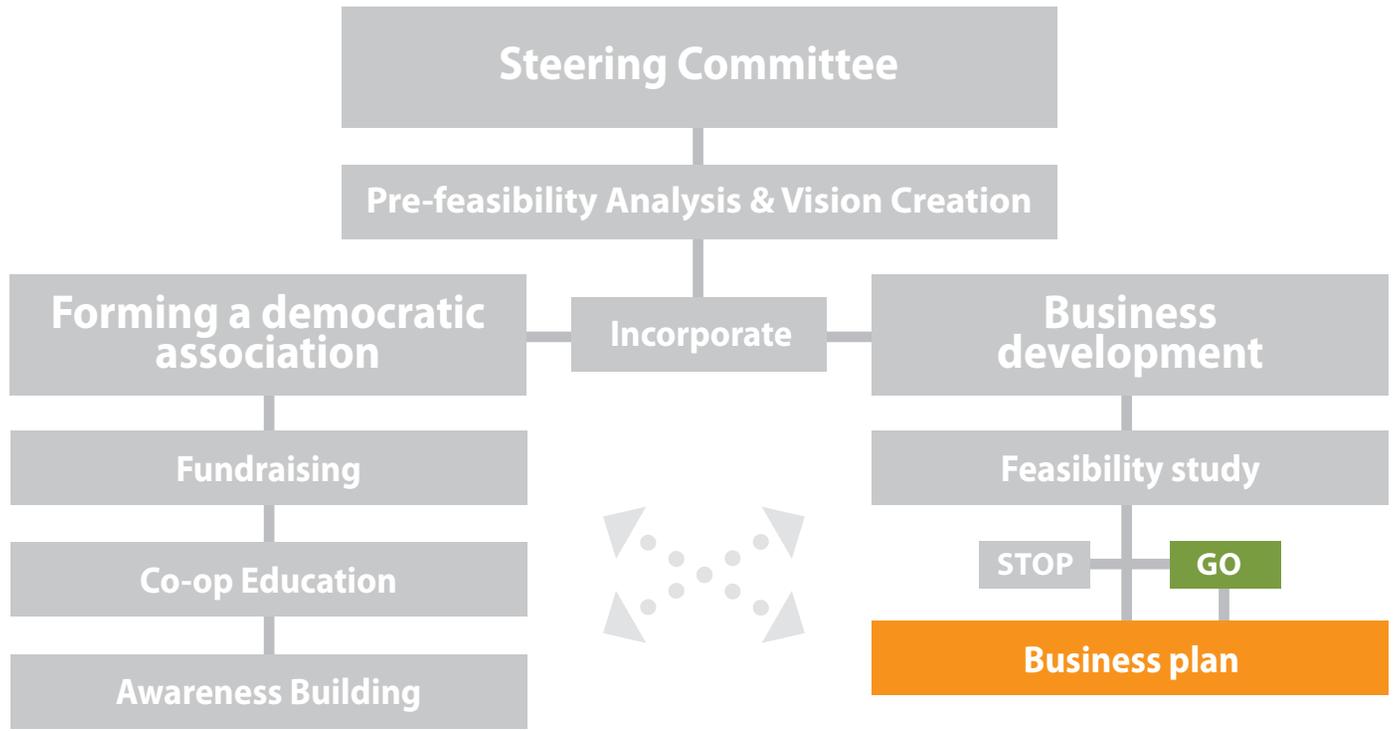
As feasibility studies or business plans are completed, these are excellent opportunities to gather the larger group of interested and potential members for discussion and education.



STOP OR GO:

Completion of the feasibility study creates a “Stop/Go” conversation. Has the steering committee discovered a reason that the project is not viable? That “no go” finding might mean the development process must end, but it is NOT a failure, it is a reason for celebration.

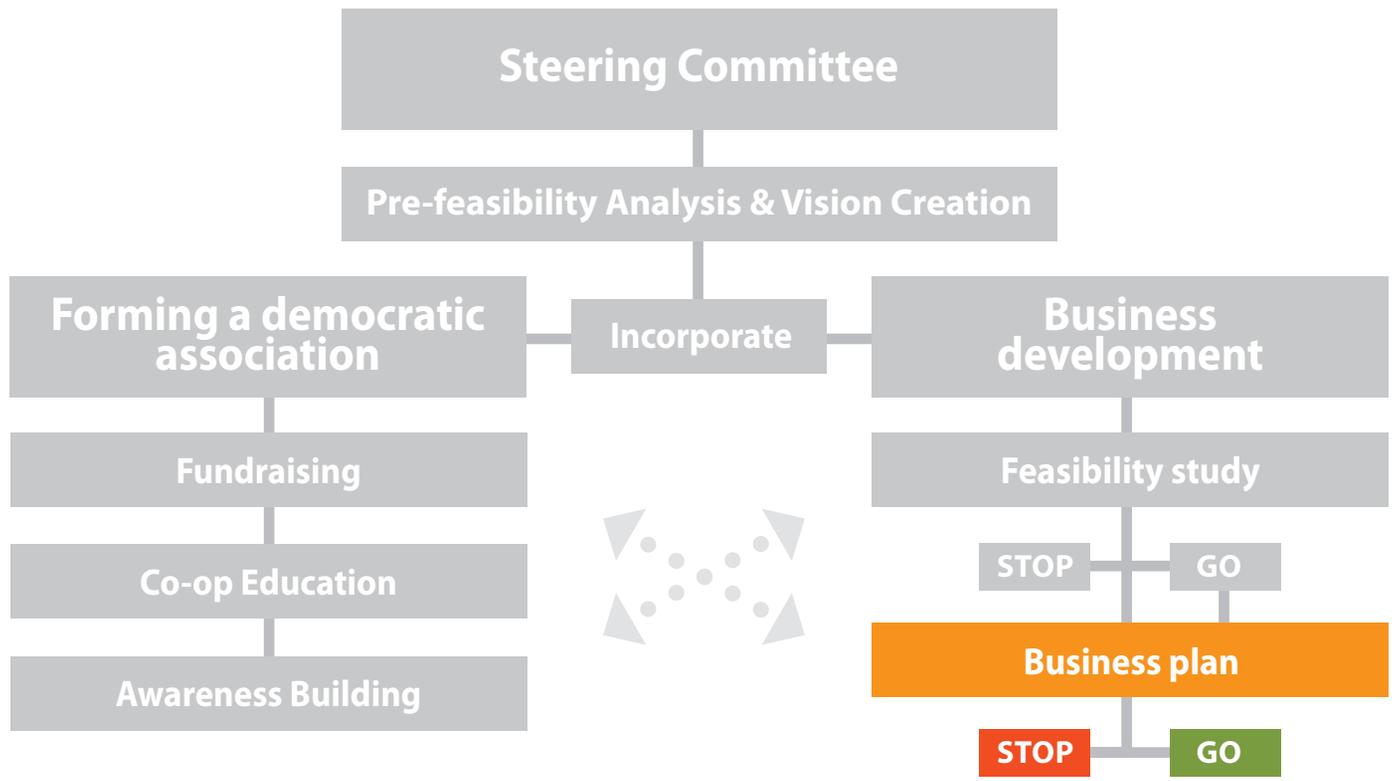
The community has more relationships, information and capacity than it did before, and ability to use a similar process to address other needs.



OBJECTIVE:

Building on the feasibility study, the purpose of the business plan is to describe the way that the organization intends to operate.

Completion of the business plan is another time for the steering committee to have a "go/no go" conversation.



BUSINESS PLAN ELEMENTS:

A description of the company, business structure, owners and management;

Assessment of the market, market entry strategy and competitors;

Description of products/ services, their attributes, and the value proposition to customers;

Description of operations and systems;
 Financial projections, including sources and uses of funds, balance sheets, income statements, cash flows and ROI/payback.

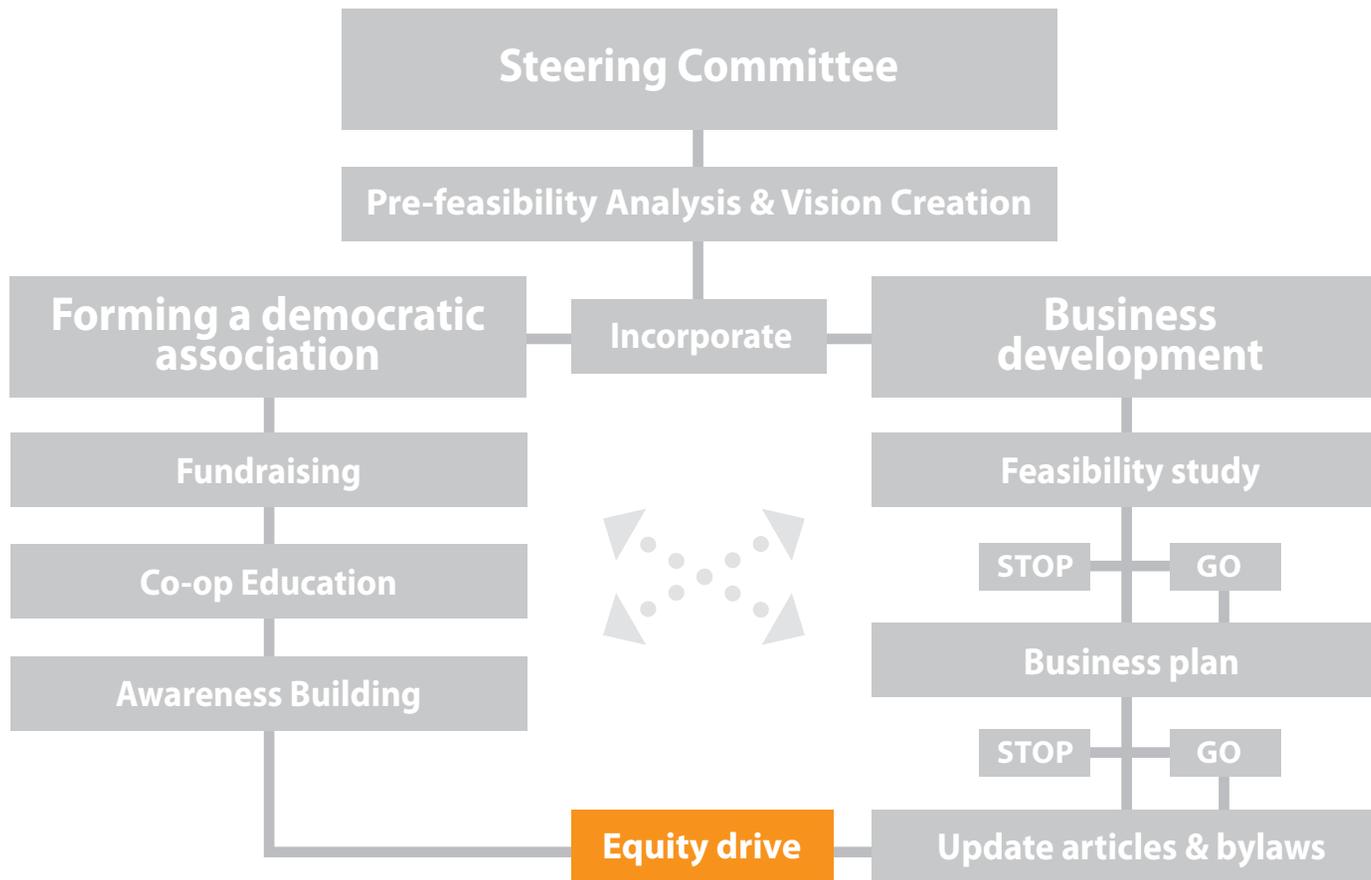


OBJECTIVE:

To ensure congruity between the organization's base documents and its approved business plan.

If the steering committee did not incorporate early in the process, this would be time to now formally incorporate.

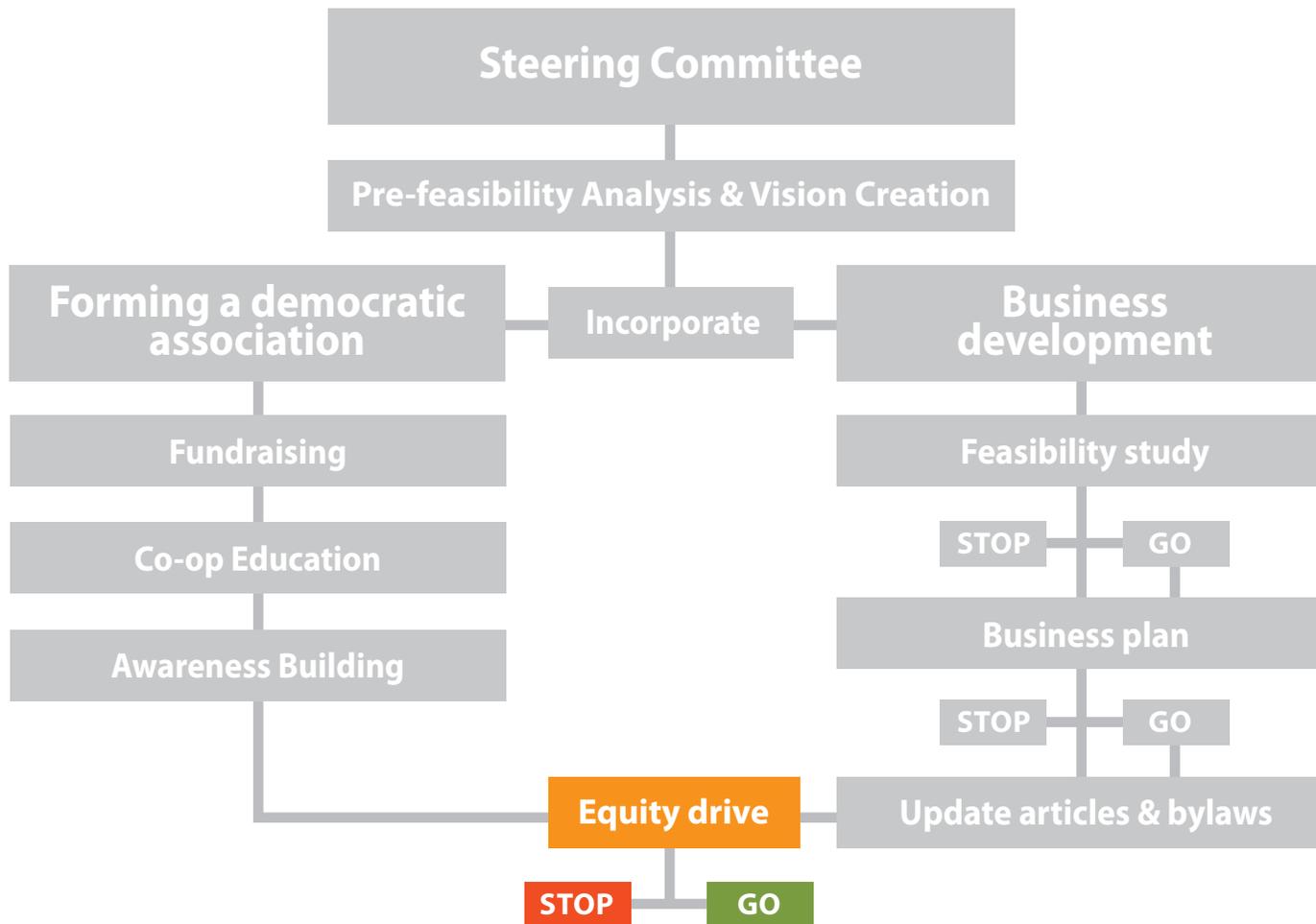
Chapter 4: Implementing the business plan?



OBJECTIVE:

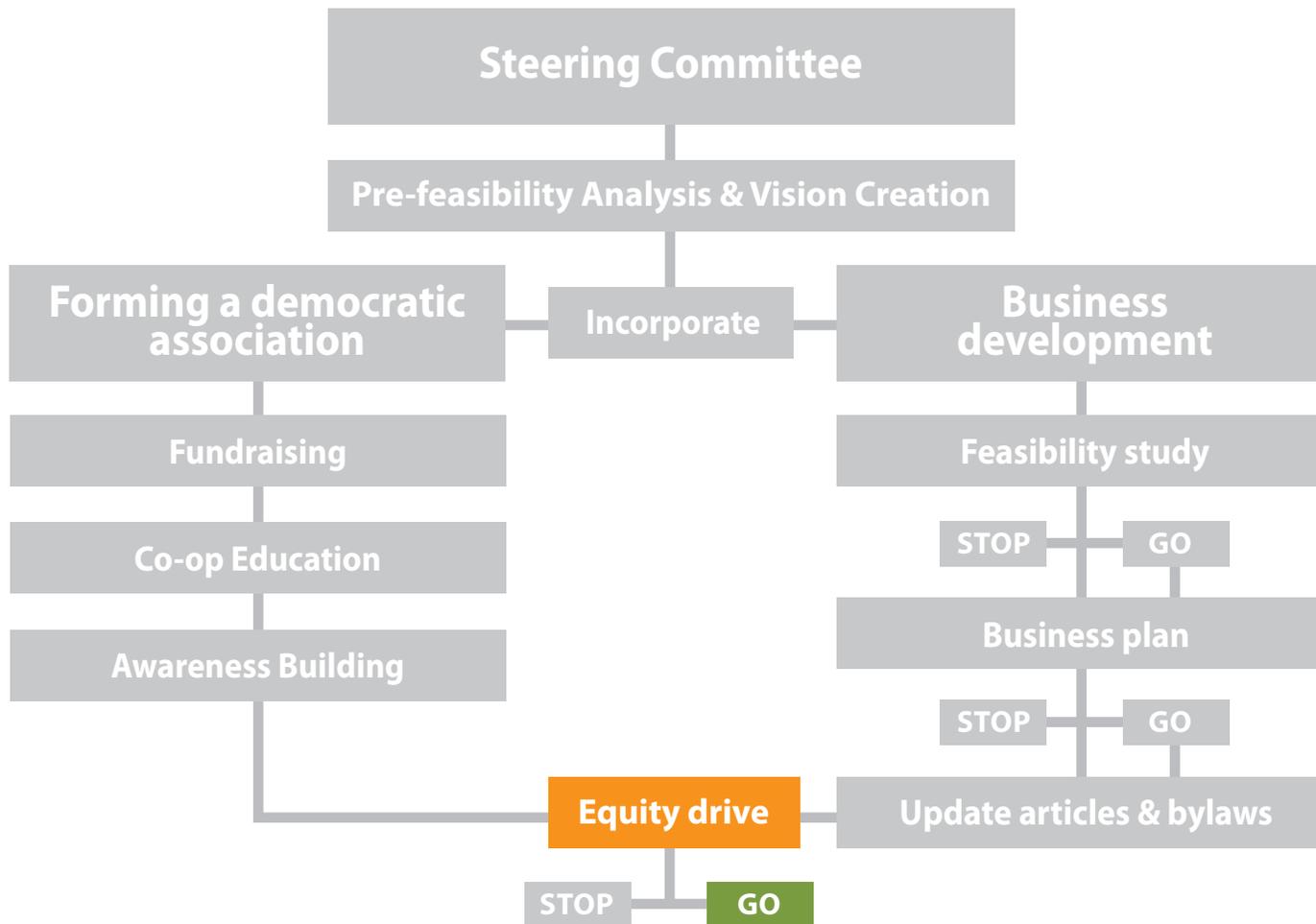
The steering committee brings the matured business plan before potential owner-members to make the case for the investment needed to capitalize the co-op itself.

Typically, equity investments are either pledged or escrowed until sufficient equity is raised to meet the minimum required investments described in the business plan.



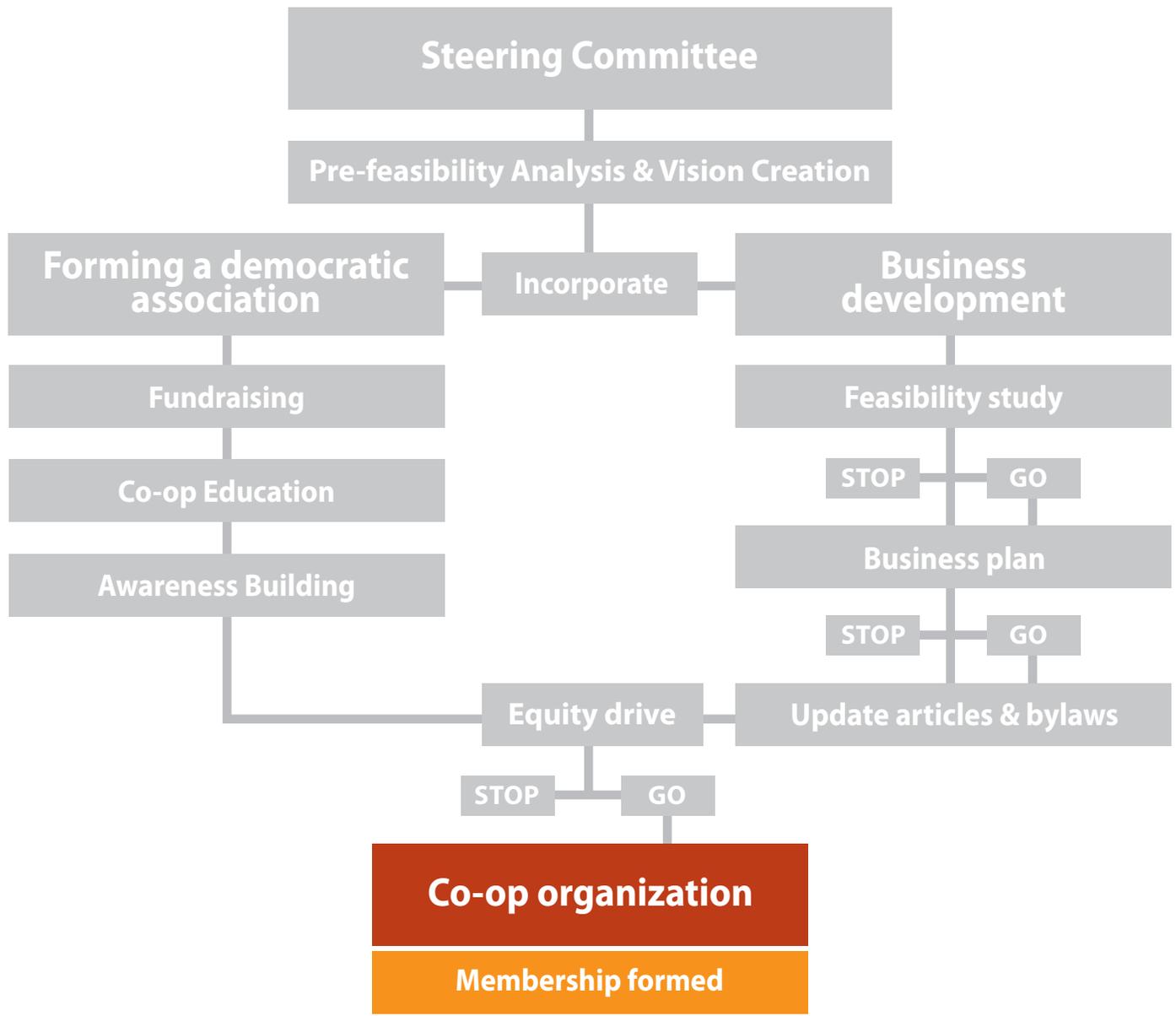
SUFFICIENT EQUITY RAISED?

A "Stop/Go" Step: when insufficient equity is raised a "Stop" occurs and requires the return of escrowed equity contributions.



SUFFICIENT EQUITY IS RAISED!

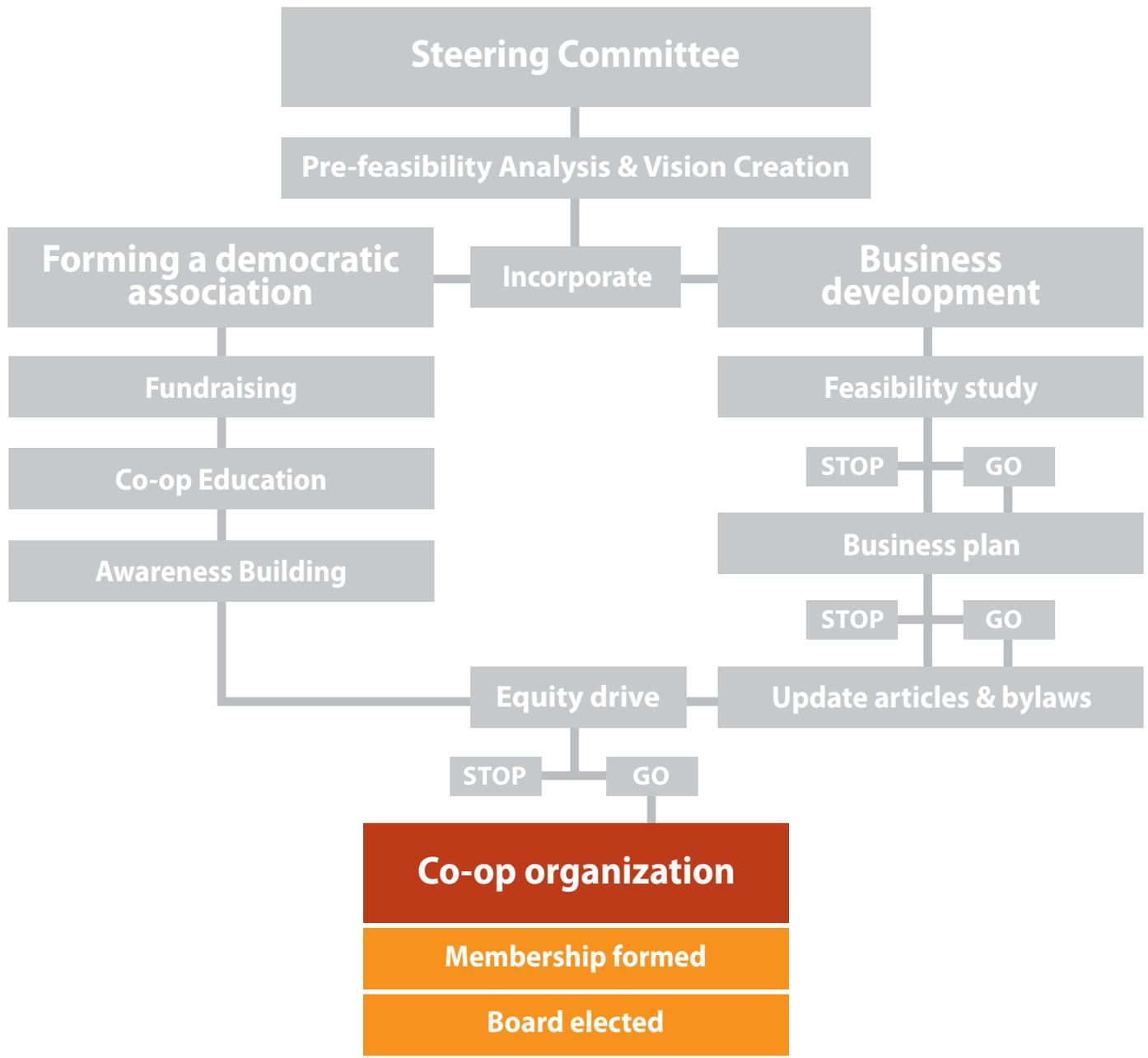
If sufficient capital is raised, the co-op has owners and capital and can proceed to implement the business plan. The work of the steering committee is complete: they have held the vision of the co-op for its eventual owners, and the steering committee is now dismissed with profuse thanks.



BEING A MEMBER AND AN OWNER

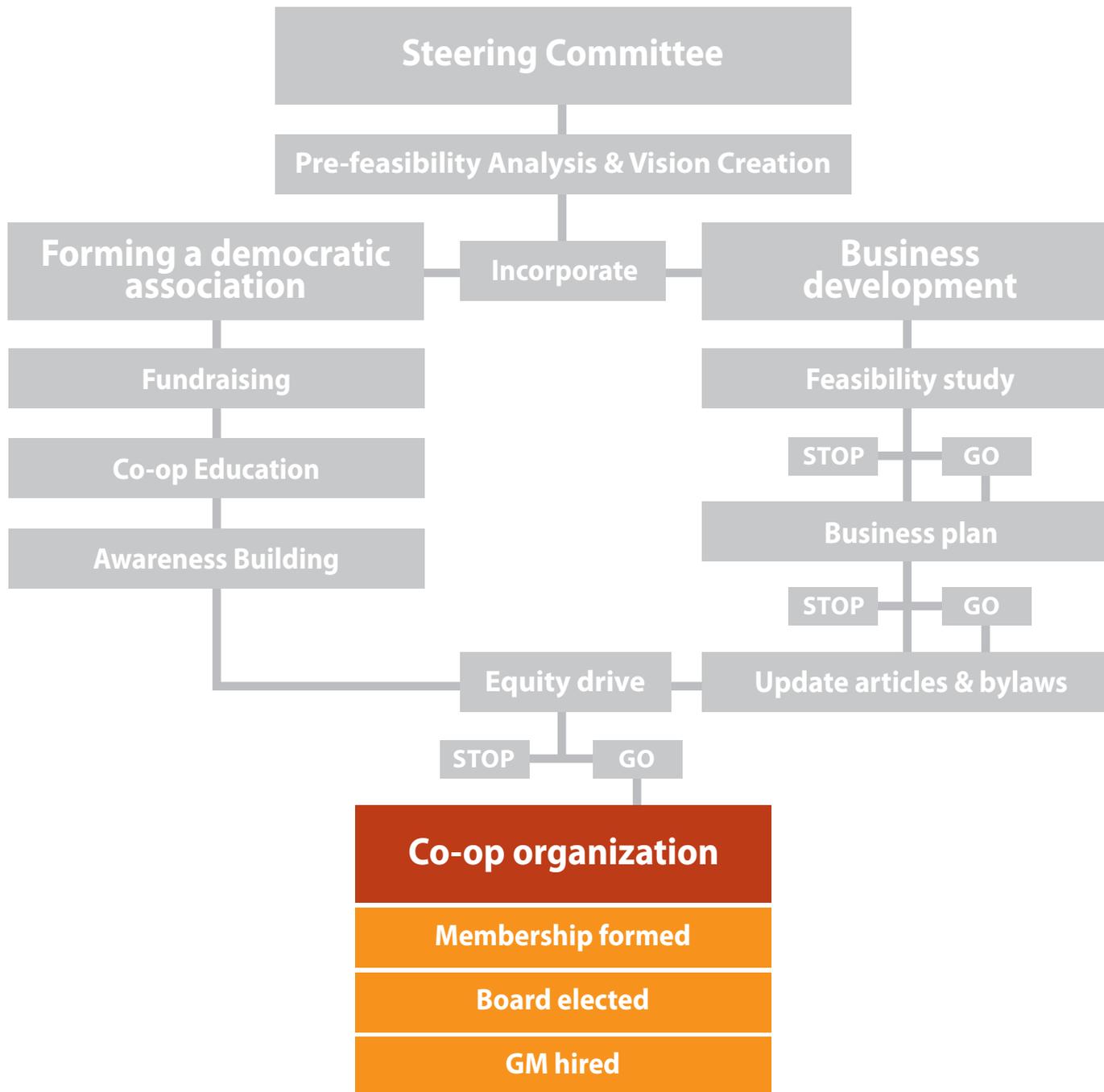
The unique attributes of being a member and an owner are the basis for the success of the co-op. As owners, members invest to capitalize the co-op just like owners of every other type of business. But members also participate in the co-op through use of its services and in governance. Indeed, the fundamental competitive advantage of any co-op is the business loyalty of its owner-members.

Effectively meeting member needs at a satisfactory cost is a key element that creates that loyalty, along with the opportunity to receive a share of net income based on use of the co-op.



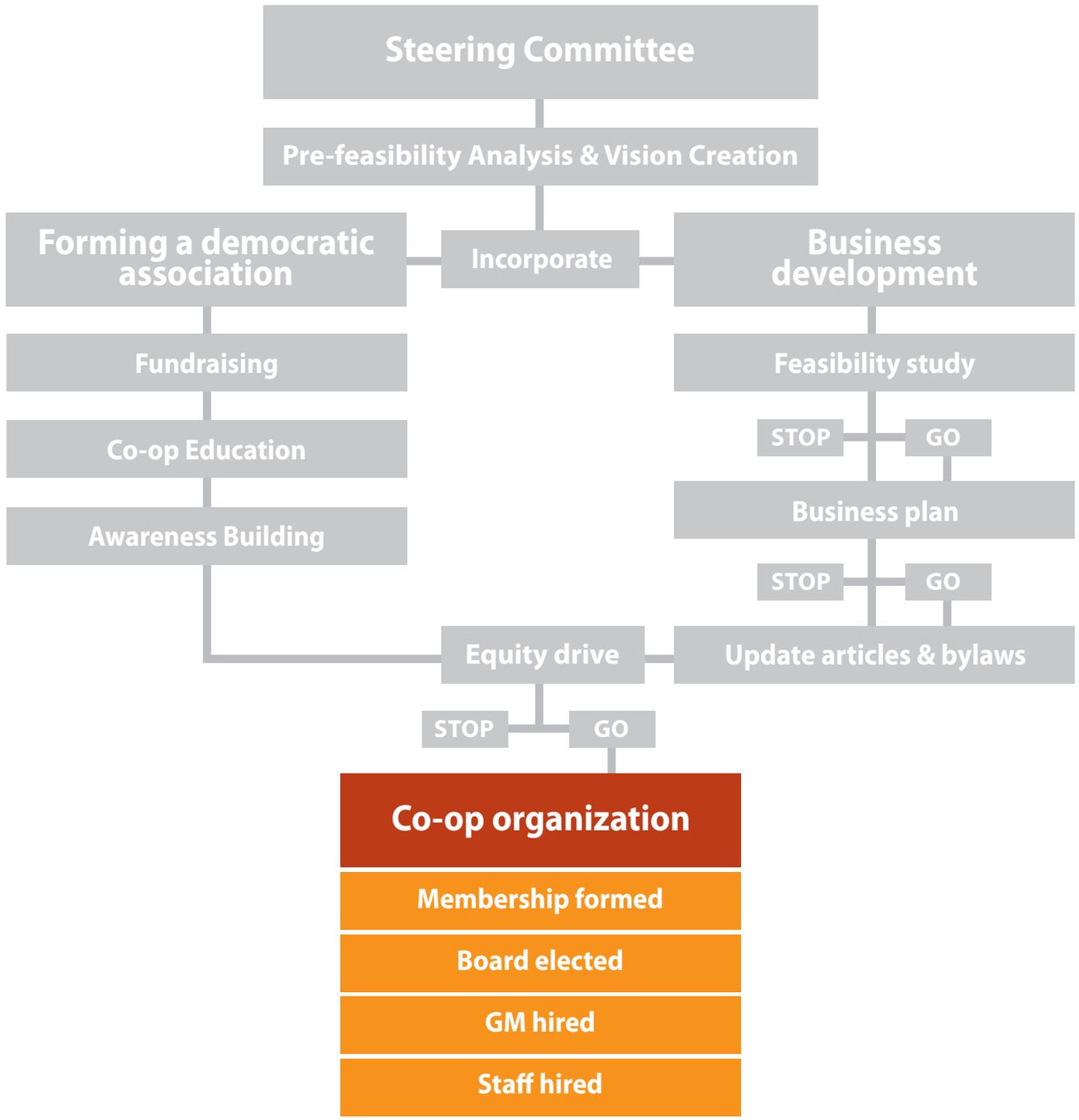
ELECTING CO-OP LEADERSHIP

The co-op holds its first Annual Meeting, adopts its bylaws, and holds elections for its board of directors. Just as steering committee members were chosen to guide the development process, the board elections process seeks leaders to guide the implementation of the business plan. Sometimes steering committee members will seek election to the board but this should not be assumed. New work may require new talents!



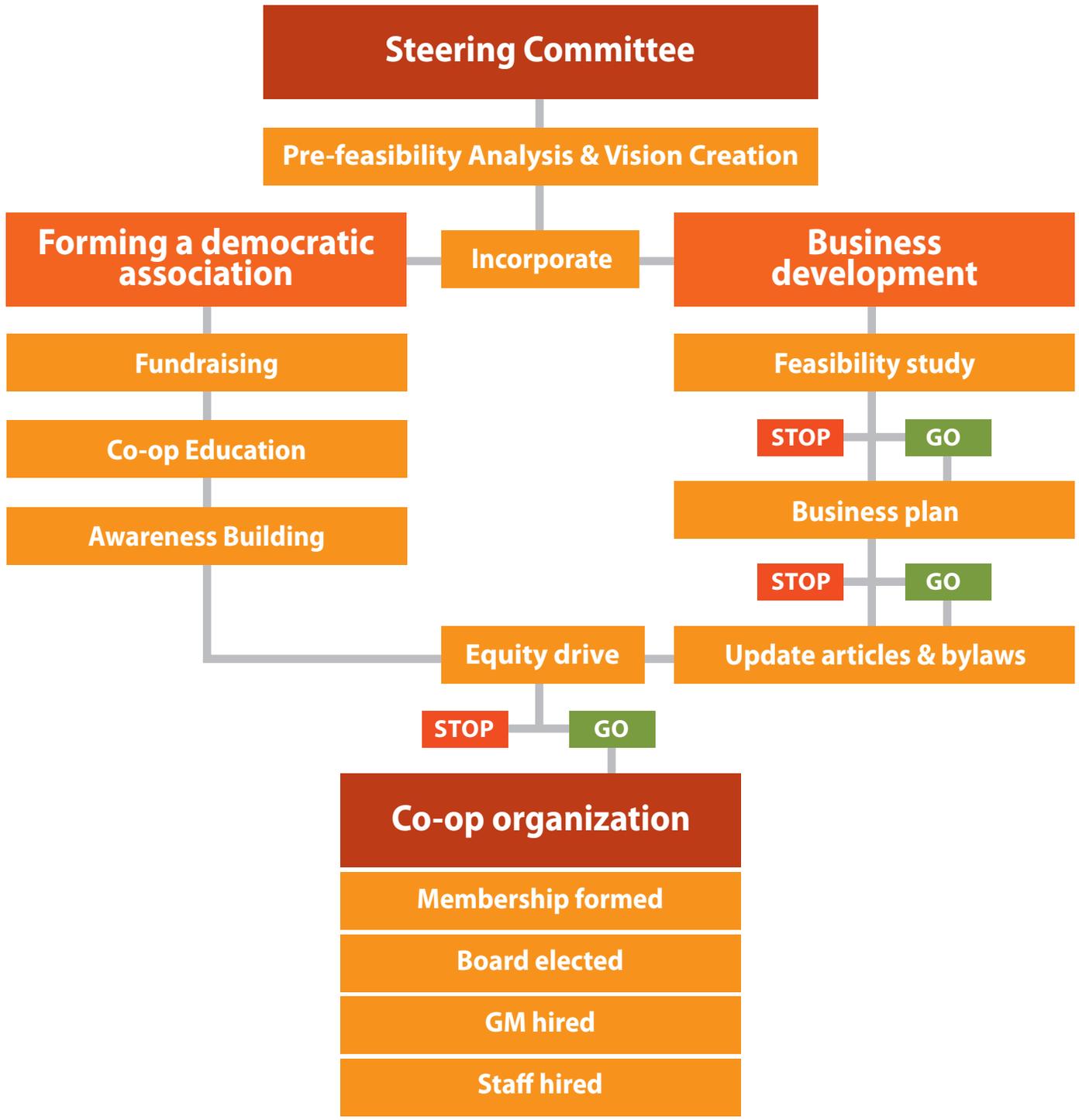
HIRING MANAGEMENT

In most co-ops, the management of the co-op is carried out by a manager hired for that purpose. The board hires, supervises and constructively supports its manager. We advise boards to use written policies to guide the work of the manager.



HIRING STAFF

The manager oversees the operations of the co-op, including hiring and supervision of staff and creation of all other systems needed to operate the co-op.



THE COOPERATIVE ORGANIZATION IS NOW A REALITY!

The development process is now complete. A group of member-owners has agreed to support a business plan through investment and participation. The co-op has owners, capital, an elected board of directors, a manager, staff and systems.



**DELIVERING
OUTCOMES TO
MEMBER-OWNERS
ON AN ON-GOING
BASIS:**

The co-op now has is able to deliver on its vision, creating whatever “good-ies” that the members want. The role of board and management is to ensure delivery of those goodies back to owner- members on an on-going basis.

Surplus (“profit”) is distributed back to owner -members annually based on their use of the co-op (patronage).

What's next?

Cooperative Development Services is a nonprofit organization with a mission to start and grow cooperative enterprises.

For information about our programs and services, go to www.cdsus.coop, or send an email to info@cdsus.coop.

We primarily work in Minnesota, Wisconsin and Iowa but can provide referrals to trusted colleagues in other regions.

Resources

Co-ops are the only business structure with internationally accepted values and principles.

ica.coop/en/cooperatives/cooperative-identity

A tremendous source of information and resources about cooperatives is the University of WI Center for Cooperatives.

uwcc.wisc.edu

The national cross-sectoral trade association for cooperatives leads and coordinates advocacy for multiple-sector impact.

ncbaclusa.coop

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CDS and other reputable cooperative development organization subscribe to The Madison Principles of Cooperative Development.

cooperationworks.coop/about/madison-principles/

Acknowledgements

So many people have informed my thinking around how to effectively capture and communicate the multitude of steps, roles and processes involved in cooperative development: development colleagues, co-op leaders, would-be cooperators, all too numerous to name. But some are particularly worthy of note:

JAKE SCHLACHTER first connected me to the duality of the “democratic association” and the “cooperative business” and opened my eyes to the parallel (not serial!) nature of co-op development work.

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BILL PATRIE has drawn widely on business practice from other sectors and contextualized that knowledge for the co-op development process. Examples include the concepts of the cooperative steering committee (the “dream team”) holding the vision of the co-op in trust for its eventual owners, and the concept of explicit “go/no go” decision points.

BILL GESSNER worked with hundreds of cooperators and cooperatives, encouraging and mentoring patient discipline and the use of metrics in the development process, always mixed with fun, whimsy, music and laughter.

—continued

MARILYN SCHOLL mentored me in the strategic process of organizational development and impactful meeting planning.

DAVID THOMPSON'S writing has always been for me a source of inspiration. His story about the Rochdale Pioneers meeting regularly at the Weavers Arms to drink beer and plan their Toad Lane co-op convince me that, whether over milk and cookies or beer and nachos, cooperators should gather regularly for lively, thoughtful and purposeful conversation.

I am grateful.

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**For questions or more information,
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