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What Is a Cooperative?

Why Cooperatives Are Organized

U.S. Department of Agriculture
Rural Business and Cooperative Development Service
Cooperative Information Report 50
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What Is a Cooperative?

Cooperatives are businesses owned and controlled by the people who use them. Cooperatives differ from other businesses because they are member owned and operate for the benefit of members, rather than earn profits for investors. Like other businesses, most cooperatives are incorporated under State law.

In the United States there are more than 40,000 cooperatives that serve one out of every four citizens. The cooperative business structure provides insurance, credit, health care, housing, telephone, electrical, transportation, child care, and utility services. Members use cooperatives to buy food, consumer goods, and business and production supplies. Farmers use cooperatives to market and process crops and livestock, purchase supplies and services, and to provide credit for their operations.

Why Cooperatives Are Organized

Cooperatives are organized to:

1. Improve bargaining power;
2. Reduce costs;
3. Obtain products or services otherwise unavailable;
4. Expand new and existing market opportunities;
5. Improve product or service quality; or
6. Increase income.

Cooperative Business Principles

The differences between cooperatives and other businesses are often expressed as three broad principles that characterize all cooperatives and explain how they operate. They are:

The user-owner principle. The member-users own and provide the necessary financing. Members finance cooperatives in several different ways.

The user-control principle. The member-users control the business. They elect the board of directors and approve changes in its structure

and operation. The board sets policy and is responsible for business oversight.

The user-benefit principle. Assures that the cooperative's only purpose is to provide and distribute benefits to members based on their use. Benefits may include a service otherwise not available, advantages from volume purchasing or sales, or distribution of profits based on member use of the cooperative.

The First Steps....

If you are interested in forming a cooperative, the first step is to learn all you can about cooperatives. This includes the legal, economic, and financial aspects of cooperative business. Getting the help of a cooperative development specialist, an attorney, and an accountant will increase your chances for success. A cooperative development specialist can help coordinate a new venture from conception until the operation is running smoothly. Careful planning increases the chances of success.

Here are 10 important steps in organizing a cooperative:

1. Hold an exploratory meeting with others who have a similar interest and determine whether you have common needs and desire to address those needs as a group.
2. Select a steering committee to guide the group through the formation process;
3. Conduct a survey of potential members;
4. Analyze markets for products, supplies, and services;
5. Prepare a business plan;
6. Incorporate the business;
7. Adopt bylaws and select a board of directors;
8. Find investment funds-including member investment needed to carry out the business plan.
9. Hire management and employees, and acquire facilities and equipment;
10. Begin operations.

Where To Get Help

USDA's Rural Economic and Community Development (RECD) offices in some States have a cooperative development specialist on staff who can help you avoid the pitfalls experienced by many businesses during incorporation and their early years of operation. An additional resource for assistance is the USDA's Rural Business and Cooperative Development Service/Cooperative Services located in Washington, D.C. Cooperative Services has a staff of professionals who may help you organize a cooperative and provide technical assistance to existing cooperatives. Contact:

Rural Business and Cooperative Development Service
Cooperative Services
Box 3250
Washington, DC 20250-3250

(202) 720-6483 (general information)
(202) 720-7558 (project requests)
FAX (202) 720-4641

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