

Cooperatives in Wisconsin

The Power of Cooperative Action





The “twin pines” symbol for cooperatives originated with The Cooperative League of the USA, which adopted it as its logo in 1992. The pine tree is an ancient symbol of endurance; the two trees together represent the strength in mutual cooperation—people helping people.

What Is a Cooperative?

A cooperative (co-op) is a business that is owned and controlled by the people who use it. It operates to benefit its users, not to maximize profits for outside investors.

People who use the cooperative **own** their co-op because they finance it in a variety of ways. They share in both the business risks and the business profits. Each cooperative determines what level of financial participation is required to establish membership status in the co-op.

Members democratically **control** their cooperative by exercising the voting rights that come with membership, so that member benefits remain the priority. In Wisconsin, each member is entitled to one vote.

Members **benefit** from the cooperative because they have access to the products and services that they need. In addition, all or part of a cooperative’s net operating profits may be distributed proportionately, based on each member’s use, or patronage, of the co-op.



What Are the Advantages of the Cooperative Model?

The cooperative model can be a very effective way for people to address their own economic needs. Often a cooperative is organized in response to some adversity—individual farmers face falling dairy prices, for example, or a community loses its grocery store. A common need for products or services may go unmet because the business does not present an attractive return to outside investors, but is nonetheless feasible as a business operation. A cooperative business may provide a solution because its ownership structure allows the business to maintain its focus on meeting member needs, not maximizing returns for owners or investors.

Co-op businesses can diversify and strengthen the local economic community. Profits tend to remain in the local economy because they are returned to members. The cooperative also can be a source of local employment, further strengthening the community.

Members’ active participation in a cooperative can benefit a community’s civic life. The empowering experience of self-determination through cooperation provides a perspective and set of skills that can be applied to other community activities.



How Long Have Cooperative Businesses Existed in Wisconsin?

Cooperatives have long played an important role in the economy of rural Wisconsin. The first town mutual insurance society was formed in the mid-1800's. In the late 1800's, the Grange movement addressed the many economic hardships facing farmers through social and political action. The Granges advocated cooperative enterprise, and familiarized many rural Wisconsin communities with cooperative stores, grain elevators, and mills.

By the early 20th century, 46 percent of the state's creameries and 37 percent of all cheese factories were farmer-owned. In the 1930's, telephone and electric cooperatives brought those critical services to rural Wisconsin.

In the more recent past, there has been a consolidation among many Wisconsin cooperatives. Changes in the market, transportation options, and improvements in communications have made larger scale operations both necessary and feasible. Faced with today's market challenges, many traditional agricultural cooperatives have entered into strategic alliances, or pursued mergers or acquisitions with both cooperative and non-cooperative types of businesses. New agricultural co-ops have been created to market "value-added" products. Members' products are produced, processed, or packaged in ways that command higher prices, providing greater returns for the co-op's members. Ethanol from corn, or milk produced in accordance with organic standards, are both examples of value-added products made by Wisconsin cooperatives.

Today there are about **850** co-ops in Wisconsin, serving almost **424,000** members and contributing **\$4.1 billion** in gross sales to the economy.



Are There Different Types of Cooperatives?

Cooperatives can be broadly grouped into several categories, depending on the needs of their members.

Marketing Cooperatives



Wisconsin Cranberry Cooperative markets the cranberries its member-owners grow on individual family farms.

Westby Cooperative Creamery is owned by dairy farmers who supply milk for the cheese and dairy products that are produced and marketed by the cooperative.



CROPP Cooperative is now owned by nearly 750 organic family farmers nationwide. CROPP markets its organically produced milk, egg, cheese, soy, juice and produce products under the Organic Valley Family of Farms brand and beef, pork and poultry products under the Organic Prairie Family of Farms brand.

Marketing cooperatives are businesses that are owned by and benefit members who produce similar products. By pooling products, a co-op can negotiate better prices and provide access to larger markets for members. It can add value by further processing member products, which increases the product price and demand. Many varieties of agricultural cooperatives fall into this category.

Worker co-ops are another type of cooperative. These businesses are owned and controlled by the workers, rather than the end-users of the business's products or services. In this way worker-members directly benefit from the business's success. Profit distribution is based on some combination of job position, hours worked, seniority and salary. Worker cooperatives are found in a wide variety of industries.

Worker Cooperatives



Union Cab is a worker-owned company providing taxi services.

Isthmus Manufacturing is a worker-owned builder of automated equipment.



Cooperative Care is a worker-owned company that provides homemaker service and certified nursing assistant care to the disabled and elderly in their homes.

Housing cooperatives provide an alternative to owning a home. In a housing co-op, a group of people jointly own the cooperative by buying shares (stock) in the cooperative corporation. The co-op owns the land and the housing units, and the shares entitle members to live in the housing units. The cooperative is responsible for repair and improvements to exterior and shared spaces, such as meeting rooms and garages.

Interior maintenance may be shared between the members and the cooperative in a variety of ways. Housing co-op members benefit from all the tax advantages of homeownership, and the housing co-op model permits a wide range of legal and financial flexibility.

Cooperatives that supply specialized goods or services to their member-owners meet their specialized needs. By combining member demand, the co-op can provide better pricing, availability, or delivery of products or services to farmers, businesses or consumers than would be available otherwise.

Housing Cooperatives



Ridge Side Co-operative, Adam Bauknecht

Homestead Cooperative of Mt. Horeb provides 25 homes to “active seniors.”

Ridge Side Co-op in Madison offers nine units of affordable housing in an increasingly high-priced neighborhood.

Adams-Friendship Cooperative Homes is a community of five separate homes built on cooperatively owned land.

Cooperatives that Supply Specialized Goods or Services



Landmark Services Cooperative provides its rural and urban members with fuel, fertilizer, feed, grains, marketing and agronomy services, as well as operating retail automotive and convenience stores.



Viroqua Food Cooperative provides its consumer members with organic and natural foods.

Adams-Columbia Electric Cooperative is a rural electric distribution cooperative that provides its member-owners with utility services.



Independent Pharmacy Cooperative negotiates with wholesalers to get better pricing and services for its members, who own independent pharmacy businesses.

UW Credit Union provides customized financial products and services to meet the money management goals of its members.

How Does a Cooperative Operate?

The operation of a cooperative depends on four different groups of people: members, directors, management and employees.



The **members** are the foundation of a cooperative: they organized it, they own it, and their needs are the reason it exists.

In Wisconsin, cooperative members each receive one vote. They control the cooperative by electing member representatives to a board of directors. Members directly vote on changes to articles of incorporation and bylaws, and on cooperative mergers or dissolution.

An informed and educated membership is essential. Members can make better voting decisions and contribute to the co-op's development when they understand the business and financial issues that the co-op is facing. For this reason, cooperatives emphasize a high-quality member communication and education program as a sound investment in the co-op's future.

Members also have a responsibility to patronize the cooperative, and to provide the capital necessary to finance the business. This member support keeps the co-op economically healthy, and allows it to adapt to changing member needs.

The **board of directors** is composed of members who are elected to ensure that the cooperative's activities are carried out to benefit all members. The directors are legally responsible for the cooperative, and are trustees for the members' equity.

Directors, as visionaries of the cooperative, develop the long-range business strategies that both ensure the economic health of the cooperative and meet the needs of the membership. They review and evaluate all financial reports, assess the capital needs of the cooperative, and determine the patronage refund allocations. They establish operating policies and are responsible for hiring and evaluating the general manager.

Directors must stay clear of conflicts of interest, so that their decisions serve the needs of the entire cooperative, rather than specific groups within the business.

The **management** of a cooperative is hired to carry out the objectives and policies adopted by the board. The general manager oversees the detailed operations of the cooperative, and manages the people, capital and physical resources within the guidelines set by board policy. The manager furnishes the board with information and recommendations for long-range planning, develops the budget for board approval, and provides ongoing financial and operations reports. Management also is responsible for hiring and supervising staff.

The **employees**, as in other business firms, are hired to carry out the tasks needed to operate the cooperative. Members' overall satisfaction with their co-op can be influenced by the employees, who work with members on day-to-day co-op transactions. Employee understanding of cooperative objectives can be an important part of positive member relations. In the case of worker-owned cooperatives, the management and employees are the member-owners.



Photo by USDA NRCS

How Is a Cooperative Financed?

Adequate financial resources, or capital, are fundamental to start, operate and grow any business. These funds can be in the form of either debt capital or equity capital.

Debt capital refers to the loans, bonds or credit that is borrowed from banks or other financial institutions, and that must be paid back to the lender with interest over time. Providing debt capital does not give the lender ownership rights. Cooperatives, like other businesses, use debt capital to start and finance their operations. Up to 50 percent of a healthy co-op's capital needs may be financed through debt. Capital is usually borrowed from commercial or cooperative banks, or other public and private financial institutions. Loans from members can be another effective way to help meet the co-op's capital requirements.

Equity capital is supplied by investors who, by risking the loss of their capital, are then entitled to some degree of ownership and a share of the business's profit. In the case of a cooperative, members act as investors by supplying a large portion of the equity capital. It is part of members' obligation as owners to share in business risk as well as business profitability, in proportion to their use of the cooperative.

Traditional cooperatives raise equity capital from members in several ways.

1. Selling common stock or membership certificates to members

Membership in a cooperative is typically established by the purchase of common stock or a membership certificate. The stock cannot be traded, nor does it appreciate.

Fees or stock purchases required for membership are determined by the bylaws of each cooperative. This is not a significant source of ongoing equity capital for established cooperatives, nor the primary source for start-up capital for a new co-op.

2. Selling preferred stock to members and non-members

When larger amounts of capital are needed for start-up or expansion efforts, cooperatives can generate equity by selling preferred stock to both members and non-members. Holders of preferred stock receive dividends paid out of the cooperative's net profit, regardless of membership status. These dividends receive priority over any other allocation of net profits. However, Wisconsin state law limits dividends of traditional cooperatives to 8 percent, to encourage net profit distribution to co-op members on the basis of patronage, rather than to investors.

Preferred stockholders have voting rights, but solely on matters that directly affect the value of their investments, such as a merger or dissolution. Each preferred stockholder receives only one vote, regardless of the amount of preferred stock owned. Preferred stock also receives priority if the cooperative is dissolved.

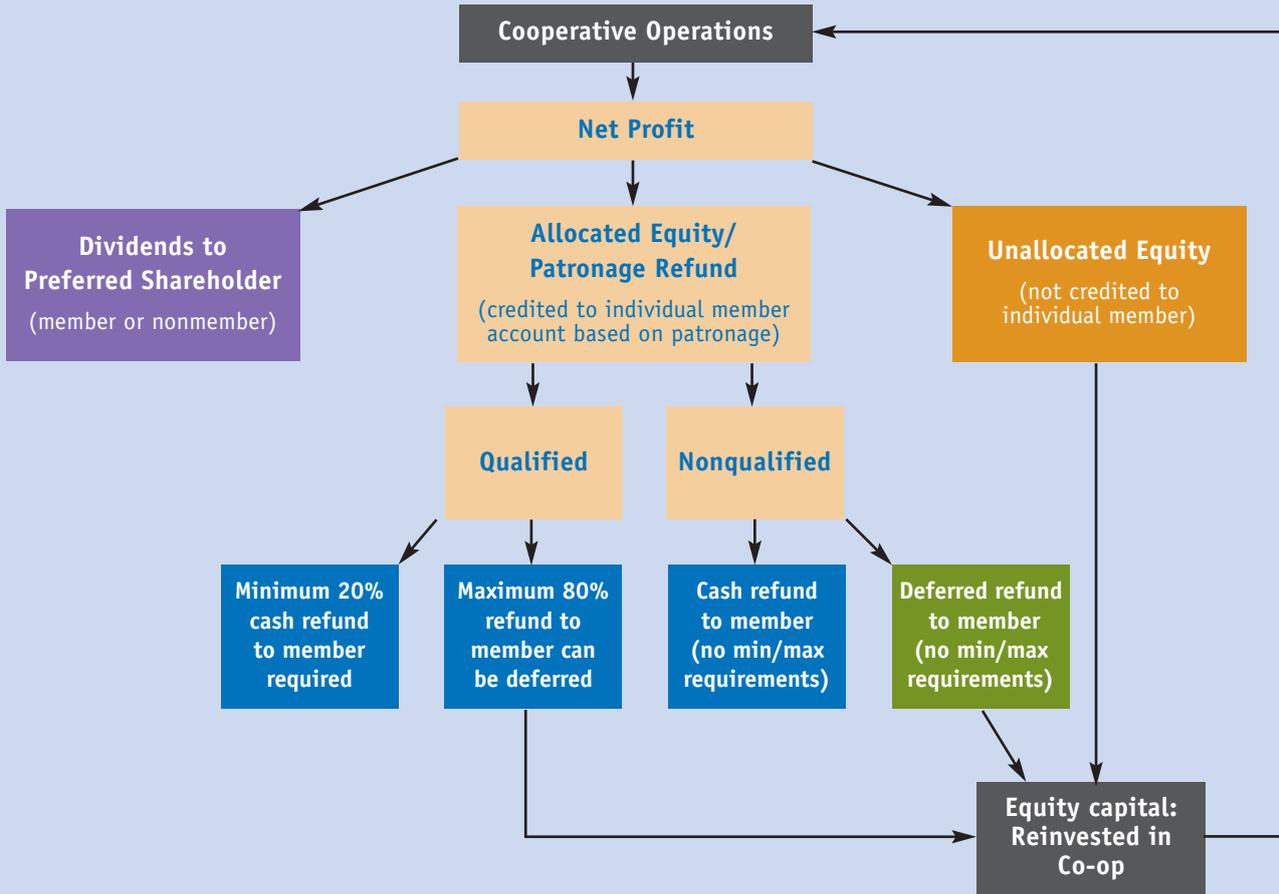


Photo by USDA NRCS



Photo by USDA NRCS

Cooperative Net Profit Distribution



Both co-op and recipient pay tax

Member pays any required tax

Co-op pays tax. Upon future distribution to member, member pays any required tax, and co-op receives tax credit

Co-op pays tax

3. Allocated and unallocated equity

To meet the ongoing need for capital, established cooperatives, like other businesses, will reinvest some portion of annual net profits back into the business. In the case of a cooperative, this type of equity can either be allocated or unallocated.

Allocated equity is the portion of the annual net profit that is credited to each member's account based on the member's use, or patronage, of the co-op that year. Allocated equity is distributed in several different ways, depending on the cooperative's capital needs, its tax position, and type of business.

Allocated equity can be designated as *qualified*. In this case, the IRS requires that at least 20 percent of the equity must be distributed to members as cash in the year earned. However, the remainder of the distribution can be deferred and reinvested in the cooperative to meet equity capital needs. The member is responsible for any required taxes on both the cash and the deferred portion of the allocated equity.

Allocated equity can also be designated as *nonqualified*. In this case, the co-op pays income tax at the corporate rate on the deferred member distributions that are reinvested. At a future date, when that equity is distributed to members in cash, the member pays any required tax and the cooperative receives a tax credit. Any portion of the allocation may also be distributed in cash to members, who are responsible for the taxes.

Retained allocated equity rarely earns interest for the members. However, the cooperative is obligated to redeem allocated equity at some point in the future, based on a redemption plan developed by the board of directors.

A portion of the net profit may also be designated as **unallocated equity**. Unallocated equity is not credited to individual member accounts, and is directly reinvested in the cooperative, which is responsible for the taxes. Another source of unallocated equity is from the profits earned by doing business with non-members.

4. Per unit retains

Per unit retains is another way for members of agricultural cooperatives to contribute equity to the co-op. The cooperative retains a portion of each transaction it makes with a member for products received or purchased. The retained payments are credited to a member's equity account, and are treated similarly to allocated equity accounts. Unlike qualified allocated equity, however, there is no 20 percent cash refund requirement. As with allocated equity, the cooperative is obligated to redeem this equity at some point in the future.

Are There New Approaches to Financing Co-ops?

The structure of cooperatives can make it challenging to raise large amounts of equity capital. Because a co-op is designed to benefit its users by distributing profits based on patronage, it may not have the capital reserves for new, capital-intensive projects. Members may not be able to raise sufficient capital themselves for a larger start-up venture, and cooperatives are not structured to offer the return potential that would attract larger, non-member investors.

New cooperative laws in several states, including Wisconsin, have been introduced to address these issues. These new laws do not replace existing ones, but instead provide another structural option to solve a business start-up problem.

Another structural innovation to address financing issues is the new generation cooperative (NGC), used in value-added agricultural ventures. NGCs tie membership shares to "delivery rights." Members purchase shares that commit a certain amount of their product for sale and delivery to the cooperative, and must pay fees to the cooperative if they fail to do so. NGCs also use delivery rights to establish limited or closed memberships, so that the cooperative can control the quantity of product it receives and must process and market. Members can sell their shares to other producers if they want to leave the cooperative, but usually must obtain board approval. Share value is allowed to fluctuate, depending on cooperative performance.

The effect of these changes to the cooperative business model, and to the interests of the patron members, will need to be evaluated in the future.

Chapter 193 A New Cooperative Law for Wisconsin

New cooperatives can be formed under either Chapter 185, or the new Chapter 193.

Highlights of the new law

- Agricultural as well as other entities, except utilities, can be formed as "unincorporated cooperative associations;" or UCAs.
- Both patrons and investors can be members, have voting rights, and be elected as directors.
- Directors elected by patron members collectively have 51 percent of the voting authority, which is wielded as a bloc vote, based on patron member majority vote.
- Patron members have a financial right to at least 51 percent of profit, unless modified by patron members. A 30 percent minimum to patron members is required, even if equity capital level from investor members is over 70 percent.
- An existing Wisconsin cooperative cannot convert to a UCA.

How Does a Cooperative Business Compare with Other Business Models?

The legal structure of a business defines ownership, liability, earnings distribution and control. A cooperative is a type of business that is owned and controlled by its members.

While other businesses distribute profit to owner-investors based on the amount of their investment, cooperatives focus returning profit to members according to individual member use, or “patronage.” Because the members are also the users of a cooperative, there is less incentive to increase investors’ earnings at the expense of delivering the products and services that members need.

Cooperatives also differ from other business structures because they often operate on principles that reflect social and political, as well as business, concerns. There are seven cooperative principles that have been developed over time, and are generally accepted by cooperatives worldwide.

More recently, in response to changing market conditions, some cooperatives in the United States have experimented with modifying these principles. For example, some cooperatives have used closed membership to maximize efficiency, profitability and the return on member equity investments. New cooperative laws in some states have granted voting rights to non-user investors. Whether these modifications ultimately dilute the benefits of the cooperative model remains a topic of debate.

“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.”

*—Bill Patrie,
North Dakota Assn.
of Rural Electric Co-ops*

The Seven Principles of Cooperatives



1. Voluntary and open membership.
2. Democratic member control.
3. Member economic participation.
4. Autonomy and independence.
5. Education and training of members and information provided to the public.
6. Cooperation among cooperatives.
7. Concern for community.

A Comparison of Business Structures*

	Cooperative Corporation	Unincorporated Cooperative Association (UCA)	Corporation (C Corporation or S Corporation)	Limited Liability Company (LLC)	Partnership	Proprietorship	Non-Profit
Governing Wisconsin Statute	Chapter 185	Chapter 193	Chapter 180	Chapter 183	Chapter 178 (general) Chapter 179 (limited)	No specific statute; must meet general business legal requirements	Chapter 181 (corporation) Chapter 184 (association)
Who are the owners?	Members (individuals or entities) who are patrons; preferred stock shareholders**	Members (individuals or entities) who are patrons; members (individuals and entities) who are not patrons but are investors	One or more shareholders (individuals or entities). An S corporation is limited to 100 shareholders.	One or more individuals who are LLC members	At least two partners (individuals or entities)	Individual proprietor	Members
Who establishes policy?	Board of Directors elected by patron members	Board of Directors elected by patron members and investor members	Board of Directors elected by shareholders	LLC members	Partners	Proprietor	Board of Directors
How much investment is required for ownership?	Determined by bylaws. Usually one share/fee to establish membership.	Determined by bylaws.	One share of stock	At discretion of LLC members	At discretion of partners	At discretion of owner	Membership fee
What is the purpose of the business?	To meet member needs for goods or services, marketing members' product, and earn a return on member investment	To meet member needs for goods or services, marketing members' product, and earn a return on member investment	To earn a return on owner investments	To earn a return on members' investments; to provide employment for members	To provide employment for partners and a return on partners' investment	To provide employment for owner and a return on owner's investment	To provide services or information
What is the individual owner's legal liability?	Limited to member's investment in the cooperative	Limited to member's investment in the UCA	Limited to shareholder's investment in the corporation	Limited to LLC member's investment in the LLC	Unlimited for general partners, limited to limited partner's investment in the partnership	Unlimited for owner	Limited to assets of the organization
How is the business financed?	Retained profits; sale of shares to members and outside investors	Retained profits; sale of shares to patron and nonpatron members	Retained profits and sale of shares	LLC members' investments and retained profits	Partners' investments and retained profits	Proprietor's investment and retained profits	Grants, individual contributions, fees for services
Who receives profits?	Members in proportion to their use; preferred shareholders in proportion to investment, up to 8%	Patron and nonpatron members in proportion to their investment; patron members in proportion to their use	Shareholders in proportion to investment	LLC members in proportion to investment or by agreement	Partners in proportion to investment or by agreement	Proprietor	Retained within the organization
Who pays income taxes on the profit?	Members pay on qualified allocated profit and cash received; co-op pays on nonqualified and unallocated profits	Members pay on qualified profit distributions based on patronage; co-op pays on profit not distributed	C corp. pays corporate rate on profits; shareholders pay individual capital gains rate on dividends; S corp. shareholders pay individual rate on profit share and capital gains	LLC members pay individual rate	Partners pay individual rate	Proprietor pays individual rate	Not applicable

* There may be exceptions to what is summarized here. See statutes for further information.

** Preferred stock shareholders may include nonmembers. As a group, preferred stock shareholders do not set policy; only members can vote for directors.

How Do I Start a Cooperative?

Starting a co-op is about starting a business. Co-ops are subject to the same market forces and economic conditions that other businesses face. A cooperative cannot be successful if it is not market-driven. Demand for the cooperative's products or services must generate profit levels that offset both the risks of investing in the business, and the costs of operating the business.

As with any new business venture, starting a co-op requires good ideas, many kinds of expertise, time, energy and money. Typically, it takes from six months to two years or longer for a new co-op to go from initial concept to beginning operations. Depending on the scale of the project, outside experts in cooperative organization, financing and business knowledge may be critical.

Starting a co-op presents unique opportunities. A community of people often can address a common economic need or opportunity more effectively than an individual going it alone. That community can supply a wider range of strengths, skills, and financial resources, as well as the support and persistence that is needed to get a new business up and running. And working together to meet a common challenge can provide the intangible but meaningful rewards that come from contributing to a larger common good.

Starting a cooperative presents challenges as well. Collaborative efforts require strong communication and "people" skills. It is important to effectively coordinate the time and energy resources that people give to start-up efforts. People will bring many different perspectives to the cooperative development process, and these must be combined into a single vision and direction. Future decision-making about the co-op's priorities and direction will be influenced by how well the co-op has clearly defined its goals, and the benefits it will provide to potential members, at the start.

Each new cooperative business situation is unique, and the manner in which the momentum, the people and the money come together will vary. The steps that are described here are typically part of a successful start-up venture, but they are only guidelines. Often the circumstances of a particular start-up venture require that some steps occur simultaneously or in a different sequence. However, each of the steps described below are logical points at which organizers can evaluate a cooperative's progress, and decide whether the effort should move forward to the next stage.



Photo by USDA NRCS



Organic Valley/CROPP Cooperative ©2006

1. Identify the problem or opportunity, and gauge broader interest.

A core group of committed and trustworthy individuals explores the common need for a particular product or service, and identifies the benefits that a cooperative might offer. The core group reaches out to the larger community to gauge interest in the co-op idea, and to further define a common need. This group organizes informational meetings for potential members, and uses these opportunities to recruit others who have the skills and expertise required to start the cooperative. Existing co-ops also may be a valuable source of information and assistance.

2. Form a steering committee and further explore the co-op business option.

If there is sufficient interest in the idea of a co-op, a steering committee of committed individuals is established. The steering committee further evaluates the cooperative business option by surveying potential members to determine interest levels and potential business volume. The committee refines the business idea, and drafts the initial mission, purpose and goals of the proposed cooperative business.

The steering committee will be responsible for financial matters, handling confidential information, and leading the decision-making process about the cooperative business opportunity. It is essential that the committee be made up of trustworthy individuals who have good business sense, will champion the project, and be capable of putting the interests of the group before their own. Many potential cooperative members will base their support of the cooperative on the credibility of the steering committee members.

3. Conduct a feasibility study and evaluate the results.

To determine whether the proposed cooperative is a viable business venture, the steering committee often conducts a feasibility study. The feasibility study examines whether there is a market for the new co-op's products or services, and whether the proposed co-op can generate enough revenue to cover the risks and costs of operating the business.

A feasibility study includes:

- a market analysis;
- management, equipment and facility needs;
- revenue projections;
- sources of financing.

This is a key step in the development of the co-op, and outside expertise may be necessary. Frequently the steering committee brings in a consultant to perform all or a portion of the feasibility study. It is important that the consultant be knowledgeable about the particular business sector, and not have a vested interest in the study's outcome.

Often the first phase of a membership drive is undertaken at this point, so that seed money is available to pay for a feasibility study, consultants and other related expenses. Other sources of funding for a study might be available from federal, state or non-profit agencies.

The results of the feasibility study are shared with members or interested stakeholders, and the steering committee decides whether to continue the cooperative development process.



Collaborative efforts require strong communication and "people" skills. The many different perspectives that people bring to the cooperative development process must be combined into a single vision and direction.

4. Establish the cooperative by adopting articles and bylaws.

To conduct business in Wisconsin, a cooperative must be established as a legal entity. The cooperative chooses to either incorporate under statute chapter 185, or to establish itself as an unincorporated cooperative association under chapter 193. It must file either articles of incorporation or articles of organization, which describe the type and scope of its business, with the Wisconsin Department of Financial Institutions.

The steering committee, acting as the interim board of directors, may draw up the articles, but these should be reviewed by a lawyer familiar with cooperatives. The articles specify whether the cooperative is a stock or non-stock cooperative, the price of the stock, and several other basic facts about the co-op. The initial bylaws, which describe how the cooperative is governed, may also be drawn up by the steering committee, acting as the interim board. Thereafter, bylaws must be adopted or amended by the cooperative's members.

Once the cooperative is established, a bank account can be opened for the deposit of member equity payments and other funds.

5. Prepare a business plan.

The business plan is an in-depth analysis of the co-op's business idea, and includes an operational plan for how the business will be run. The business plan is an important communication tool for answering questions that potential members will have about the proposed co-op. Lending institutions and other funding sources will also want to review the business plan.

Usually, members will be expected to supply between 30–50 percent of the start-up equity capital. The co-op will need to borrow the balance from a financial institution.



The business plan includes:

- a market analysis;
- a description of the product that the cooperative will be selling and how it meets a need in the marketplace;
- marketing and sales strategies;
- operations;
- management and ownership;
- sources and uses of start-up funds;
- projected financial data for the first five years of operations.

6. Begin a membership equity drive.

The membership drive will indicate whether there is sufficient member support for the new cooperative. Materials for prospective members should clearly explain the cooperative's mission, the financial requirements (stock purchases or membership fees), and the risks and benefits of membership.

7. Elect a board of directors and secure start-up capital.

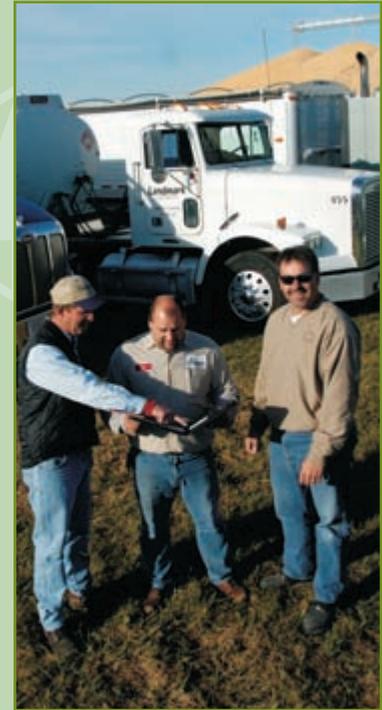
A membership meeting is held to elect the first board of directors, and the bylaws are presented and approved. The board of directors begins coordinating the business plan implementation.

The board works to secure start-up capital in the form of loans from banks or other financial institutions. Lending institutions will evaluate the risks associated with making a loan to the start-up cooperative business by analyzing the cash flow and financial projections in the business plan. Banks also will look at the amount of member equity invested in the cooperative, since this indicates support and the level of risk that members are willing to assume. Banks that are specifically oriented to cooperatives, and understand their unique structure, can be an important resource at this juncture.

Although staff recruitment cannot go forward until financing has been secured, some cooperatives identify possible management personnel earlier in the process, or retain them as consultants. Because knowledgeable staff is essential to running the day-to-day business operations, financial institutions also pay close attention to personnel and management planning as part of their risk assessment.

8. Secure site, vendors and staff so that operations can begin.

Once hired, key management personnel play an important role in securing the operations site, developing vendor networks and hiring staff. There are often specific licensing or regulatory requirements that must be met before the business can begin operations. Legal, insurance and risk management issues must also be addressed before the business can begin operations.



What Factors Contribute to a New Co-op's Success?

Certain common characteristics are often cited as influencing the successful development of a new cooperative.

Successful new co-ops:

- Use committees, advisers and outside expertise effectively.
- Keep members informed so that they stay involved and supportive.
- Conduct business-like meetings by using agendas, parliamentary procedures and democratic decision-making.
- Maintain good board-management relations by clearly defining roles and responsibilities.
- Follow sound accounting practices, and present financial reports regularly.
- Develop alliances with other cooperatives.
- Develop clear policies on confidentiality and conflict of interest.

Potential risks to a new co-op include:

- Lack of a clearly defined mission, purpose and focus.
- Lack of member leadership.
- Inadequate feasibility study and/or business plan.
- Failure to use experienced advisers and consultants.
- Lack of financial commitment from members.
- Lack of competent management to run the cooperative's operations.
- Failure to identify and minimize business risks.
- Lack of adequate financing.
- Inadequate communications.



Where Can I Learn More About Cooperatives and Starting a Business?

One way to gather information about co-ops is through further reading. The following two websites are a good place to start.

University of Wisconsin Center for Cooperatives (UWCC)

UWCC provides an extensive online resource for many types of publications and articles related to co-ops.

Website: uwcc.wisc.edu.

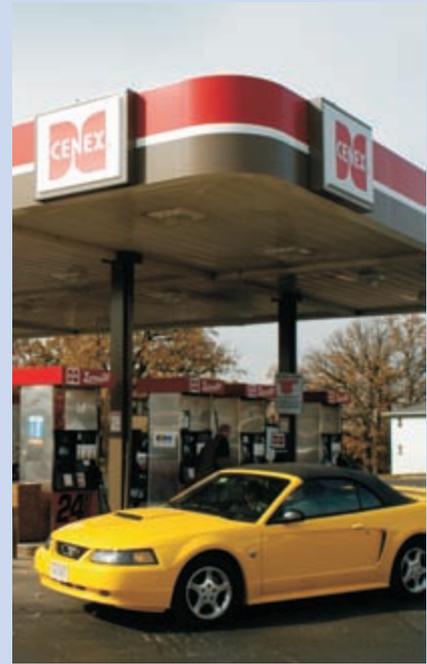
U.S. Department of Agriculture (USDA) Rural Development, Business & Cooperative Programs

USDA supplies many other publications about cooperatives that may be helpful.

Website: rurdev.usda.gov/rbs/pub/cooperative.htm.

Finding and talking to knowledgeable people can be an effective way to learn more about both cooperatives and starting a business. Other cooperatives can be a good place to start. Because cooperative principles include “cooperation among cooperatives,” many cooperatives will make time to talk about starting a cooperative, or offer technical assistance.

Consultants who are knowledgeable about a particular market or an industry, or who have worked in cooperative development, can be another valuable resource. Attorneys and accountants knowledgeable about co-ops also can provide needed expertise.



There are also organizational resources that have co-op specialists, small business specialists, or program area specialists on staff that can provide assistance.

Cooperative Development Services

CDS is a non-profit organization created and governed by the cooperative community of the Upper Midwest for the purpose of developing cooperative businesses in all sectors of the economy.

131 West Wilson Street, Suite 400
Madison, WI 53703
Phone: 608-258-4396
Fax: 608-258-4394
Email: CDC@cdsus.coop
Website: cdsus.coop

NCB Capital Impact

NCB combines financial and development services to deliver affordable housing, health care, education, and other economic development ventures to underserved communities.

1725 Eye Street NW, Suite 600
Washington, DC 20006
Phone: 202-336-7680
Fax: 202-336-7804
Website: ncbcapitalimpact.org

North Country Cooperative Development Fund

NCDF is a member-owned and member-governed financial intermediary. Using money invested by cooperatives and supporters, its mission is to promote economic equity and community stability by making loans to cooperatives, and by providing support services.

219 Main Street SE, Suite 500
Minneapolis, MN 55414
Phone: 612-331-9103
Fax: 612-331-9145
Email: amanda@ncdf.coop
Website: ncdf.coop

Ohio Employee Ownership Center

OEOC is a non-profit, university-based program that includes information about employee ownership and ESOP programs.

Kent State University
309 Franklin Hall
Kent, Ohio 44242-0001
Phone: 330-672-302
Email: oeoc@kent.edu
Website: dept.kent.edu/oeoc

Rural Housing Inc.

Rural Housing assists low-income WI families to obtain housing, and enables small communities and local organizations to more effectively address housing, water, and community development needs of low-income rural residents.

4506 Regent Street
Madison, WI 53705
Phone: 608-238-3448 or 888-400-5974
Fax: 608-238-2084
Email: ruralhousing@tds.net
Website: wisconsinruralhousing.org

Wisconsin Agricultural Innovation Center

AIC provides information, training and counseling to agricultural and rural entrepreneurs. AIC counselors are available across the state.

Phone: 608-265-2903
Fax: 608-262-6055
Email: glawless@wisc.edu
Website: aic.uwex.edu

Wisconsin Department of Agriculture, Trade and Consumer Protection

DATCAP provides services and regulates all aspects of agriculture in Wisconsin.

2811 Agriculture Drive
PO Box 8911
Madison, WI 53708-8911
Phone: 608-224-5012
Website: datcp.state.wi.us

Wisconsin Department of Commerce

The agency provides a broad range of business development assistance.

201 West Washington Avenue
Madison, Wisconsin 53703
Phone: 608-266-1018
Website: commerce.state.wi.us/sitemap/business/index.html

Wisconsin Entrepreneurial Network

WEN provides a website that integrates statewide resources for small business development.

Website: wenportal.org

Wisconsin Small Business Development Center

The SBDC offers a range of educational services for small businesses in any stage of business development, from pre-venture to high-growth. It also provides counseling to help clients manage their businesses more profitably.

The SBDC also operates through a network of offices at the UW-Extension, 12 UW campus service centers and three specialty centers. The main state office can be contacted at:

Wisconsin SBDC State Office—
UW Extension
423 Extension Building
432 N. Lake Street
Madison, WI 53706
Phone: 608-263-7794
Fax: 608-263-7830
Website: wisconsinsbdc.org

University of Wisconsin Center for Cooperatives

UWCC researches and promotes cooperative action to meet economic and social needs. It provides an extensive informational website on cooperatives, and organizes extension/outreach programs on cooperative business principles for agricultural, business and consumer cooperatives.

230 Taylor Hall
427 Lorch Street
Madison, Wisconsin 53706-1503
Phone: 608-262-3981
Fax: 608-262-3251
Email: info@uwcc.wisc.edu
Website: uwcc.wisc.edu

University of Wisconsin-Extension

UW-Extension extends the knowledge and resources of the University of Wisconsin to people where they live and work. There are offices located in every county in the state, where resources and educational programs are available.

To obtain county locations by phone, the central office may be contacted at 608-263-5110.

The county office locations, contact information and program area specialists are listed on the UW-Extension website.

Website: uwex.edu/ces/cty

USDA Rural Development, State Office

Rural Development's Cooperative Services Program promotes cooperatives as a viable business option for marketing and distributing agricultural products, and has a co-op specialist on staff.

State office:
4949 Kirschling Ct
Stevens Point, WI 54481
Phone: 715-345-7615
Fax: 715-345-7669
TTY: 715-345-7614
Email: RD.Webmaster@wi.usda.gov
Website: rurdev.usda.gov/wi

There are many other organizations that provide resources related to cooperatives and cooperative development.

The Cooperative Foundation

The Cooperative Foundation is a private foundation that supports unique, innovative cooperative development and education projects in Iowa, Minnesota, North Dakota, South Dakota, and Wisconsin.

PO Box 64047
St. Paul, MN 55164
Phone: 651-355-5481
Fax: 651-355-5073
Email: william.nelson@chsinc.com
Website:
thecooperativefoundation.org

National Cooperative Business Association

NCBA is a national cross-industry membership and trade association that develops, advances, and protects cooperative enterprise. Through its education and development programs, NCBA helps co-ops strengthen their businesses, and provides a voice for co-ops on Capitol Hill.

1401 New York Avenue NW,
Suite 1100
Washington, DC 20005
Phone: 202-638-6222
Fax: 202-638-1374
Email: ncba@ncba.coop
Website: ncba.coop

National Council of Farmer Cooperatives

Since 1929, NCFC has worked to advance the interests of America's farmer. NCFC members include nearly 50 national, regional and federated farmer cooperatives which, in turn, are comprised of some 3,000 local cooperatives, and 27 state and regional councils of cooperatives.

50 F Street NW, Suite 900
Washington, DC 20001
Phone: 202-626-8700
Fax: 202-626-8722
Website: ncfc.org

Wisconsin Federation of Cooperatives

The Federation is a statewide trade association representing several hundred Wisconsin cooperatives. These include agricultural cooperatives, credit unions, rural electric cooperatives, and others.

131 West Wilson St., Suite 400
Madison, WI 53703
Phone: 608-258-4400
Fax: 608-258-4407
Website: wfcmac.coop

Bibliography

Considering Cooperation: A Guide for New Cooperative Development. Brian M. Henehan and Bruce L. Anderson. Dept. of Applied Economics and Management, Cornell University, February 2001.

Cooperatives: A Tool for Community Development. UW Center for Cooperatives and Cooperative Development Services (CDS), 1998.

Cooperatives 101: An Introduction to Cooperatives. CIR 11. Donald A. Frederick. USDA Rural Development, 1997.

Cooperatives: Principles and Practices in the 21st Century. Kimberly A. Zeuli and Robert Cropp. University of Wisconsin Extension publication A1457, 2004.

Creating 'Co-op Fever': A Rural Developer's Guide to Forming Cooperatives. Service Report 54, William Patrie. USDA Rural Development, 1998.

Development Manual for Small Rural Home Cooperatives. Anne Reynolds, UW Center for Cooperatives, and Char Thompson, Foundation for Rural Housing, Inc., 2005.

How to Start a Cooperative. CIR 7. Galen W. Rapp and Gerald Ely. USDA Rural Development, Revised, 1996.

Legal Manual for Small Rural Home Cooperatives. Anne Reynolds, UW Center for Cooperatives, and Char Thompson, Foundation for Rural Housing, Inc., 2005.

Worker Cooperatives: Case Studies, Key Criteria & Best Practices. Greg Lawless and Anne Reynolds. UW Center for Cooperatives Staff paper, July 2004.

These publications, and many others, can be accessed online at University of Wisconsin Center for Cooperatives: uwcc.wisc.edu



Author: Lynn Pitman, associate outreach specialist, UW Center for Cooperatives.

Designer: Carol Bracewell, Flying Pig Productions.

Robert Cropp, Professor Emeritus, Department of Agricultural and Applied Economics, UW-Madison; Greg Lawless, Director, Wisconsin Agricultural Innovation Center; Anne Reynolds, Assistant Director, UW Center for Cooperatives; Philip Harris, Professor, Agricultural and Applied Economics, UW-Madison; and Paul Dietmann, UW Cooperative Extension-Sauk County reviewed this publication and provided many helpful suggestions.

Additional photos courtesy of: Adams-Columbia Electric Cooperative, Co-operative Care, Landmark Services Cooperative, UW Credit Union, Wisconsin State Cranberry Growers Association, Western Wisconsin Renewable Energy Cooperative, Willy Street Grocery Co-op, Wisconsin Historical Society.

This publication was made possible by a USDA Agricultural and Entrepreneurship Education Extension Grant to the UW-Extension Emerging Agriculture Markets (EAM) Team.

The University of Wisconsin Center for Cooperatives is a unit of the University of Wisconsin-Madison and University of Wisconsin-Cooperative Extension.

This publication is available from your Wisconsin county Extension office or from the University of Wisconsin Center for Cooperatives. For additional copies, please contact:

UW Center for Cooperatives
427 Lorch Street
Madison, WI 53706
Phone: 608-262-3981
Email: info@uwcc.wisc.edu
Website: uwcc.wisc.edu