

AGRICULTURAL CO-OPERATIVES

A Start-up Guide

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- *Starting an Agricultural Marketing Cooperative*. Center for Co-operatives, University of California.
- *Steps to Starting a Marketing Co-op*. Zimbelman, K., E. K. Coontz and A. Malan. Center for Cooperatives, University of California and the Northwest Cooperative Federation.

A complete citation of these works as well as additional references are provided at the end of this booklet.

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WHAT IS A CO-OPERATIVE?

“A Co-operative is an autonomous association of individuals voluntarily united to meet their common economic, social and cultural needs through a jointly-owned and democratically-controlled enterprise.”

International Co-operative Alliance, 1996

A co-operative is a type of business which is owned and democratically controlled by its members—the people who use and benefit from the services provided by the business. Virtually any type of business can be organized as a co-operative. Indeed, co-operatives operate in almost every sector of British Columbia’s

economy, including financial, retail, housing, forestry, fisheries and agriculture. All are owned and controlled by the people who use and benefit from the services provided by the co-operative.

Agricultural co-operatives are owned and controlled by the producers who purchase goods and services from, or deliver raw commodities to, the co-operative. Co-operatives provide groups of producers with the opportunity to own and control businesses related to their farming operations, enabling them to address common problems or develop market opportunities.

Defining Features of Co-operative Businesses

Co-operatives exist to provide benefits in the form of goods and services to their members. This differs from the primary purpose of other types of business organizations—such as sole proprietorships, partnerships, and corporations—which typically exist to generate profits for the owners of the business. Other significant differences between co-operatives and other types of businesses have to do with ownership, control, and the way the benefits from operating the business are distributed.

Ownership

Co-operatives are financed by the people who use the services provided by the business. Investing risk capital in a co-operative business is a basic member responsibility and a function of owning the co-operative.

In a corporation, anyone with capital to invest may become an investor, regardless of whether or not they use the services provided by the business. Similarly, anyone may establish a sole proprietorship or participate in partnerships, regardless of whether or not they use the services provided or

patronize the business. Sole proprietorships, partnerships, and corporations are often referred to as investor-owned firms when compared to co-operatives, which are member-owned, and, in the case of agricultural co-operatives, producer-owned.

Control

Co-operative control is expressed through the principle of “one member, one vote”—each member has only one vote regardless of the amount of capital that member has invested in the business. Members’ control over a co-operative is normally exercised through the election of a board of directors from the membership. The board represents the membership in providing direction to the business by establishing the overall goals and policies of the co-op. In a co-operative, the central issue of control typically focuses on determining the types of services provided by the business.

In corporations, shareholders normally hold control over the business in proportion to the amount of capital they invest. Shareholders elect a

Section 1 - What is a Co-operative?

board of directors who guide the affairs of the corporation in the interests of the shareholders. The directors may or may not be shareholders themselves. The central issue of control in corporations is typically the returns to the shareholders' investment in the firm compared to other current investment opportunities.

In a corporation, if individual shareholders cannot vote or choose not to, they may assign their voting rights to other individuals by proxy. In a co-operative business, voting by proxy is permitted only under certain circumstances.

In non-incorporated private businesses, individual partners or proprietors exercise direct control over the business.

Distribution of Benefits


In co-operatives, benefits are distributed to the members in proportion to their use of the goods and services provided by the business. Any surplus (gross income less expenses) generated

through a co-op's business operations are either reinvested in the business to improve the services provided or they are redistributed to the members in the form of patronage refunds. Patronage refunds are calculated in proportion to a member's use of the services provided by the co-operative.

In investor-owned firms the profits generated from the operation of the business are typically distributed to investors in proportion to the capital they have invested in the firm. In corporations, this is done by paying dividends on investment shares.

Liability

Co-operatives are incorporated. A member-owner of a co-operative has limited liability for financial loss. Therefore, like the stockholder in a corporation, a co-op member can lose no more than the amount of money that he or she has invested in the business. In contrast, in a sole proprietorship or partnership, the owner or partners are liable for all debts, operating losses or other liabilities incurred by the business.



Comparison of Co-operatives and Other Types of Business

	Sole Proprietorship	Partnership	Corporation	Co-operative
Purpose	Profit for proprietor.	Profit for partners.	Profit for shareholders on investment of time or money.	Benefits for the members (i.e., service, cost savings and/or profits).
Ownership	By sole proprietor.	By partners.	By shareholders.	By members.
Control	Controlled by sole proprietor.	Controlled by partners, typically according to time or money invested.	Based on the number of voting shares held per shareholder, directly or by proxy.	One member, one vote. Proxy voting limited.
Distribution of Surplus Earnings	Income to the sole proprietor.	Allocated among partners, typically according to time or money invested.	To shareholders paid in proportion to investment.	To members in proportion to use of service.
Liability	Unlimited liability of sole proprietor.	Unlimited liability of partners.	Shareholders limited to share subscription. Directors can be liable.	Members limited to share subscription. Directors can be liable.

Why Do People Form Agricultural Co-operatives?

The key features of co-operative businesses offer people distinct advantages in addressing a variety of market situations and issues. Agricultural co-operatives enable producers to realize economic benefits which they could not otherwise achieve alone. Some of the reasons why producers form co-operative businesses include:

▶ **To improve bargaining power.**

Co-operatives can provide groups of producers with marketing power more comparable to that held by processors and other market players. Co-ops do this by gathering market information and sharing that information with their members or by acting as a bargaining agent on producers' behalf.

▶ **To reduce costs.**

Pooling capital and resources through co-op enterprises can enable producers to access services, such as marketing expertise, that they could otherwise not afford alone.

▶ **To achieve economies of scale.**

By handling large volumes of product, co-operatives can reduce the per-unit cost of marketing and processing for producers. Similarly, the cost of inputs and services can also frequently be lowered if larger volumes are ordered through a central agency. Co-ops allow producers to focus on producing goods, rather than on finding buyers and suppliers.

▶ **To increase returns**

Because the surpluses generated by co-operative businesses are returned to producers on the basis of patronage, co-operatives allow producers to capture additional profits beyond the farm gate.

▶ **To improve product and service quality.**

Co-operatives can allow producers to coordinate the timing of the delivery of commodities to markets. Co-ops can also enable producers to implement grading systems and standards. These activities can improve the services provided to retail and wholesale outlets and the quality of product available to consumers.

▶ **To reduce risk.**

Agricultural commodity prices often fluctuate considerably throughout the year. Co-operatives allow farmers to pool their production with that of other farmers to minimize price and market risk.

▶ **To obtain needed products or services.**

Often producers require certain services or products which privately owned companies are reluctant to provide due to the small potential sales volume or uncertain profits. Such producers may join together to form a co-operative to assure the availability of vital products and services.

Agricultural co-operatives can allow farmers to address common problems, develop new market opportunities or expand existing markets. A co-operative can give producers access to a larger share of the earnings generated from business activities and can also keep these earnings circulating in the local economy. However, co-operatives are not a panacea—they require a group of individuals who are committed to working together to address a common economic goal or need. If this commitment is not there, a different business structure may be more suitable.



Co-operative Profile

The United Flower Growers Co-operative Association is a grower-owned and operated co-op established primarily to market the floral products grown by its members. Founded in 1963 by a small group of Canadian and European growers, the Co-op has become the primary merchandiser of floral products in British Columbia. The one-hectare facility is located in Burnaby and is the largest of its kind in North America. The Co-op is managed under the guidance of an elected Board of Directors and currently employs 30 full-time staff. There are approximately 100 member growers of the Co-op and about 50 growers and wholesalers classified as guest shippers.

United Flower Growers conducts Dutch-style auctions four or five times weekly depending on the time of year. On a typical auction day, growers bring their crops to the auction on specially designed display carts. Within the climate-controlled warehouse, hundreds of carts are lined up in numbered rows. The first row to be auctioned is randomly chosen by an impartial lottery system.

Potted plants and cut flowers are sold simultaneously in the same auction gallery. Each floral cart is exhibited beneath the computer-controlled clocks for viewing by the customers assembled in the gallery. The grower's number, a product description, and the number of lots available is displayed on message boards beneath the clocks. As the sale of product begins, the hand of the clock starts at the highest estimated market price and falls until a purchase is made by one of the customers. A Dutch-style clock auction is an auction in reverse. The first customer to stop the clock using an electronic keypad on each assigned desk will purchase the product on display. Purchasers have the option of selecting the number of lots they wish to acquire. The customer may buy the minimum amount required during each transaction or purchase everything currently displayed on the clock. As the auction progresses, warehouse staff consolidate individual purchases into single shipments. Customers make their own transportation arrangements.

Prices vary daily depending upon season, supply and demand. Selling is speculative. There are no assured prices, although growers have the option of removing their product from the clock if prices fall below an acceptable level. To ensure a high standard of quality, the Co-operative's inspectors check flowers and foliage for damage, dehydration, or other imperfections. Substandard crops are downgraded or rejected. Customers are encouraged to personally inspect all products before the auction. During a typical day's auction, the computer records some 2,500 transactions involving about 10,000 floral units with an average value of \$17 per unit. Business is conducted on an established credit or a cash-and-carry basis.

By bringing diverse buyers and sellers together at the auction, growers can specialize in a select range of crops rather than attempting to fill the different needs of every customer. Growers also have collective access to those customers, saving time and money normally spent on merchandising their crops elsewhere. Growers also profit from group advertising and other promotions. For retailers and wholesalers, the auction offers the chance to buy at a one-stop floral centre. The auction provides the opportunity to purchase the exact assortment required for small or medium size outlets as well as orders for very large single-item lots from mass merchandisers.

Source: United Flower Growers Co-operative Association home page (<http://www.ufgca.com>).

Types of Agricultural Co-operatives

Virtually any type of agri-business can be organized as a co-operative. Traditional types of agricultural co-operatives include supply, marketing and processing co-operatives. A relatively new type of agricultural co-operative is the New Generation Co-operative.

Supply Co-operatives

Purpose: To provide producers with inputs and services at competitive rates.

Members: The producers who purchase supplies and services from the co-op. That is, the customers or patrons.

Supply co-operatives sell a variety of goods to producers, including petroleum, feed and fertilizers. Services such as breeding, artificial insemination, and seed cleaning have also been organized on a co-operative basis. Depending on the needs of the producers involved, supply co-operatives can vary in complexity: ranging from simple buying clubs organized by producers to access bulk or volume discounts, to large wholesale and retail operations which provide a wide variety of goods and services to a broad range of customer-members.

Supply co-operatives may choose to either charge market prices for the services and products offered by the business or they may choose to price at cost plus an operating margin. In either case, any profits generated by the business are typically returned to members at the end of the year in proportion to their patronage. The members of supply co-ops can also decide whether or not to sell goods or services to non-members. Allowing non-members to purchase supplies or services can often increase the level of profits generated by the co-operative.

Marketing and Processing Co-operatives

Purpose: To market and process producer goods.

Members: The producers who deliver their products to the co-operative.

Producers create marketing co-operatives to jointly market, distribute and process their products. By pooling their resources, producer-members can hire professional marketing specialists and have their products processed in plants in which they have an ownership stake. Many marketing co-operatives also facilitate producer investment in the development of brandnames, market research and product development.

Co-operatives use many methods to account for, and track, the raw commodities delivered to their facilities by their members. Some co-operatives pay producers a market price upon delivery. Others pay producers a pooled price based on the average returns earned by the co-operative over a specified marketing period (see pg. 5). Still other co-operatives simply facilitate the transaction between the producers and the final buyer, charging the producer on a per-unit basis for this service and never retaining ownership of the product. In each case, members may receive additional payments at the end of the marketing season, based on the co-operative's earnings in excess of operating costs. Depending on their mandate, co-operatives may or may not market the product of nonmembers.

Many co-operatives use marketing agreements as a way of specifying the terms under which products will be accepted, processed or marketed by the co-op on behalf of its members. This enables the co-operative to operate on a more efficient basis. Processing co-ops, in particular, can save costs if they match the volume of their members' commodity production to their facilities' capacity.



Co-operative Marketing Arrangements

Marketing and processing co-operatives use a number of different methods to account for the products delivered to their facilities by their members. Two types of co-operative marketing arrangements include **marketing pools** and **call marketing**.

In co-operative **marketing pools**, producers of a specific commodity jointly pool their production to be marketed and/or processed by their co-op. Under this practice, ownership of the harvested commodity is transferred to the co-op and the co-operative's management determines the best time to sell, where to sell, and whether to subject the raw commodity to further processing. In return, producers agree to accept the average return earned by the pool during the marketing season. In a typical pool, producers receive advance payments at the time their harvests are delivered to the co-op. The co-op then makes a series of progress payments as the product is marketed. A final settlement payment is made when all costs and revenues for the marketing season have been established. The final return paid to participants is adjusted according to the relative quality of the delivered commodity.

Pooling can provide real advantages to producers by placing the commodity in the hands of marketing specialists to be sold for the highest price available on any given day. Being in the market every day reduces the risks of failing to sell at the highest price offered by the market or selling all production at the market's low point for the year. Risk is further reduced by spreading it over a group of members instead of concentrating it in the production of one grower. No one participating in the marketing pool receives the highest price offered for a given commodity in a given year, but on an individual basis, each one is protected from selling at the bottom of the market.

Participating in pools also carries some disadvantages. Some growers feel a real discomfort when they surrender control of the decisions regarding when to sell their production. They are willing to sacrifice the relative security of weighted average prices for the opportunity to control the sales of their crops according to their understanding of market conditions. Also, because the pool cannot be closed until the end of the marketing season, there are some delays in making the final settlement payments. These payments are normally a small portion of the total payments to producers participating in co-operative marketing pools and can be managed to prevent significant disruptions of cash flows to producers' individual business operations.

In a co-operative with a **call marketing** arrangement, ownership of the product delivered to the co-op remains with the member who produced it. At any time during the marketing season, the individual members decide when and how much of their production to sell. The co-operative's function is to sell its members' products and to guarantee the collection of the proceeds. The co-op may also allow members to set a minimum price at which the commodity may be sold. After the sale is completed a portion of the proceeds is withheld to cover the co-op's operating costs and to provide a contribution to equity capital. The remaining funds are paid to the member.

Co-operatives with a call marketing arrangement provide members with the right to determine the time of sale and essentially function as a broker between buyers and sellers. The co-op typically provides a marketplace where transactions between buyers and sellers are conducted in public. This serves to provide information on the most recent transactions to all members, thus giving members increased market power in the form of information about supply and demand, as well as the impact of the market situation on the prices being offered to producers for their commodities. (For an example of a co-operative which operates using a call marketing arrangement, see page 5.)

Adapted from *Starting an Agricultural Marketing Cooperative*, Center for Cooperatives, University of California, Davis.

New Generation Co-operatives

Purpose: To add value to producer goods through the joint processing of raw commodities.

Members: The producers who purchase shares obligating them to deliver a specified volume of raw product to the processing facility.

The name New Generation Co-operative (NGC) refers to a type of processing co-operative which uses a particular form of marketing agreement to raise the large sums of capital required to invest in value-added processing activities. As in any co-operative, to be a member of an NGC a producer must purchase shares in the business. However, the financial structure of an NGC is based on equity shares which are tied to the right and obligation to deliver a certain amount of raw product to the processing plant.

The equity shares used by NGCs not only provide the co-op with needed capital, but also commit the producer to delivering a specified volume of raw product to the plant. In turn, the co-op is committed to accepting the delivered product, as long as it meets certain pre-established quality standards. As with other contractual agreements, contingencies are incorporated to account for unusual occurrences, such as crop failure. With fixed supply commitments and quality controls in place, the co-operative can run its processing

facilities efficiently, producing and developing markets for high-quality end products.

The number of shares available in an NGC is limited according to the capacity of the processing plant. Once the plant is operating at maximum capacity, shares can be traded among members pending board approval. The price at which the shares are traded reflects the benefits members expect to receive from the co-operative over time. The benefits to members include a guaranteed market for a portion or all of their production and the potential to share in the earnings generated by the co-op's processing operations.

Upon delivery of raw product to the processing facility, the members of NGCs typically receive a predetermined portion of the market price. This initial payment is followed by a second payment at the end of the co-op's operating cycle. The second payment represents the members' share, based on the volume of product delivered, of the returns received from the sale of the final processed product by the co-operative.

To date, no New Generation Co-operatives have been formed in British Columbia. However, the success of many NGCs in the upper mid-western United States has generated substantial interest in this type of co-operative as a model for the development of agri-based processing facilities in western Canada.



New Generation Co-operative Profile

The North American Bison Cooperative is a New Generation Co-operative which buys and processes bison produced by its member-owners and then markets fresh and processed bison meat into European and upscale domestic restaurant markets. The shared challenges which led to the formation of the co-op included the need for product and market development, a lack of processing facilities and marketing channels, and the absence of grading standards.

The \$1.6 million processing plant built by the co-operative was financed through the sale of shares tied to delivery rights. Each share sold entitles the owner and member of the co-op to deliver one bison per year for slaughter to the facility. A total of 5,000 delivery shares were issued corresponding to the 5,000 head processing capacity of the plant. Current membership in the co-operative covers fourteen states and four Canadian provinces. Out of the 250 members, 60 are western Canadian ranchers.

Source: *New Generation Co-operatives: Revitalizing Rural Communities*. Centre for the Study of Co-operatives, University of Saskatchewan, Saskatoon.



Potential Pitfalls for New Co-operatives

Considerable time and effort are spent in starting a co-op, and like most businesses, co-ops are most vulnerable in their early formative years. Chances for the successful formation of a co-op can be increased by avoiding the pitfalls experienced by other co-operatives.

Lack of clearly identified goals and objectives: The operations of a co-op should be in line with a clear mission statement with definite goals and objectives identified and developed by the members.

Inadequate planning: Detailed plans for reaching defined goals are important. In-depth surveys of the potential members' needs coupled with business feasibility studies are necessary. If there is not sufficient interest in the project by potential members or if it is not a sound business venture, a co-operative should not be formed.

Failure to use experienced advisors and consultants: Most people interested in becoming members of a new co-operative have not had co-operative business development experience. Using advisors experienced in co-op development can save a lot of wasted motion and expense.

Lack of member leadership: Calling on the services of experienced resource people can not replace leadership from the organizing group. Decisions must come from the potential members and the leaders they have selected.

Lack of member commitment: To be successful, a co-operative must have the broad-based support of the potential members. The support of lenders, attorneys, accountants, government agents, and a few leaders will not make a co-operative business successful.

Lack of competent management: Hiring an experienced and qualified management team increases the chances for business success. Most co-operative members are busy operating and managing their own businesses and lack experience in co-operative management.

Failure to identify and minimize risks: The risk in starting a new business can be reduced if identified early in the organizational process. Careful study of the competition, federal, provincial, and local government regulations, industry trends, environmental issues, and alternative business practices helps to reduce risk.

Poor assumptions: Often, potential members overestimate the volume of business and underestimate the cost of operating a proposed co-operative. Quality business assumptions tempered with a dose of pessimism often proves to be judicious.

Lack of financing: Regardless of the amount of time spent in financial projection, new businesses are often underfinanced due to inefficiencies in start-up operations, competition, complying with regulations, and delays. The first months of business operations and even the first years are frequently not profitable, so adequate financing is important to survive this period.

Inadequate communication: Keeping the membership, suppliers, and financiers informed is critical during the organization and early life of a co-operative. Lack of, or incorrect, information can create apathy or suspicion.

Source: *How to Start a Co-operative*. Rural Business/Cooperative Service, United States Department of Agriculture.

HOW TO START A CO-OPERATIVE*

Starting a co-operative is a complex project which involves careful planning and thorough research. This chapter presents an overview of five basic steps involved in the organization of a co-operative business:

- Step 1 - Identify a Common Economic Goal.
- Step 2 - Determine Business Feasibility.
- Step 3 - Develop a Business Plan.
- Step 4 - Draft Legal Papers and Incorporate the Co-operative.
- Step 5 - Implement the Business Plan and Begin Operations.

Each step represents a point of evaluation where a decision must be made as to whether or not to continue with the co-operative, based on research results and analysis. In order to build a strong

foundation for the co-op, these decisions will require involvement and input from as many potential members as possible. Effective meetings are an important part of the development and ongoing operation of a co-operative business (see page 10 for additional information on conducting effective meetings).

The following pages provide general guidelines and suggestions for starting an agricultural co-operative in British Columbia. When developing projects, groups will need to supplement this information by accessing other resources including those available from various levels of government, economic development organizations, private sector consultants, lawyers and accountants. Groups interested in starting a co-op are encouraged to refer to the resource list at the end of this booklet for further information.

Step 1 Identify a Common Economic Goal

Purpose: To clearly identify a common economic goal and assess the level of interest in the formation of a co-operative to address this goal.

The catalyst for forming a co-operative business is a group of compatible individuals who share a common economic goal and who believe that they can best achieve this goal by working together.

A common economic goal can be the result of a shared problem or opportunity. For example, the group may lack a market for their products or a satisfactory source of farm supplies. Or they may wish to engage in an activity, such as processing, which will allow them to develop their industry and will provide additional sources of income.

► **Clearly identify the goal or reason for the formation of a co-operative.**

In most cases a common goal will be identified by

a group of prospective co-op members getting together to discuss the issues facing their farm business. These informal gatherings lead to further discussions and ideas of how a co-operative can address the issues common to the group.

To clarify the idea for forming a co-operative:

- Research the issues facing your group, focusing on the biggest obstacles and identifying current options and potential alternatives;
- Collect general information on the structure and operation of co-operative businesses;
- Gather information about the kind of business that your group is interested in;
- Use the information collected to determine which goals a co-op can and cannot address;
- Discuss your findings with as many potential members as possible.

*Much of the material in this section is adapted from "How to Start a Cooperative", Rapp, G. and G. Ely, United States Department of Agriculture and "Steps to Starting a Marketing Co-op", Zimelman, K., K. Coontz and A. Malan, Center for Cooperatives, University of California and the Northwest Cooperative Federation.



Guidelines for Conducting Effective Meetings

Effective meetings are those in which the goals of the meeting are met and where the level of participation is high. Components essential to conducting effective meetings include adequate **preparation**, good **facilitation**, and the ability to develop and follow an **agenda**.

Preparation requires:

- selecting a time and location convenient for most people;
- publicizing the meeting;
- arranging for a facilitator and note taker in advance;
- clearly defining the goals of the meeting;
- preparing a written agenda outlining the goals of the meeting and the items of business to be covered;
- distributing the agenda and specifying a contact name.

The role of the meeting **facilitator** is to:

- provide leadership to the meeting;
- remain neutral and ensure that the group accomplishes its goals in a democratic manner;
- keep the meeting moving, on track, and on time;
- encourage meaningful discussion;
- help everyone to participate;
- prevent and deal with disruptive behavior.

An **agenda** is a list of items of business to be covered in a meeting. It should be distributed to meeting participants ahead of time if possible. The **agenda**:

- reminds participants of the meeting;
- assists participants to identify important items and come to the meeting prepared to discuss them;
- helps a meeting remain focused;
- reduces the possibility of items of business being overlooked or forgotten.

Adapted from *Conducting Effective Meetings*, factsheet published by the Co-operatives Directorate, Saskatchewan Economic and Co-operative Development.

► **Hold an information meeting for people who may be interested in forming a co-op.**

The purpose of this meeting is to determine whether or not there is enough interest to start and support the ongoing operation of a co-op business.

Plan for an effective meeting by preparing an agenda and arranging for a meeting facilitator. Select a time and location that will be convenient for most people. Consider holding the meeting in conjunction with an existing producer assembly or conference. Publicize the meeting date, time and place via association newsletters and magazines, newspapers, telephone, letter or word of mouth.

Primary agenda items should include:

- a description of the perceived problem or opportunity and a summary of how a co-op might solve the problem or allow producers to take advantage of the opportunity.
- discussion around the following questions: What is the economic goal to be achieved through the formation of a co-operative? Do we share this goal? Does a co-operative make sense as a way of achieving this goal?
- a vote on whether or not to continue to research the idea of a co-op. If interest is positive, select a steering committee which is capable and willing to continue researching the co-op idea.

Allow plenty of time for discussion and encourage prospective members to express their views and ask questions. All issues raised should be addressed, although the answers to some questions may be delayed until more information becomes available.

Decision Question: Is there enough interest in the project to warrant continuing?

► **Select a steering committee.**

The steering committee is responsible for guiding the group through the development process. Specific responsibilities include:

- informing potential members of the group's progress and coordinating further meetings;
- surveying producers regarding their needs;

- collecting market and financial information;
- assessing the feasibility of the business;
- overseeing the preparation and implementation of the co-op's business plan.

The steering committee may undertake these tasks with other potential members or with the assistance of external advisors. When external advisors are consulted, the committee will need to act as a liaison between potential members and the advisors.

► **Obtain funding.**

The development of a new co-operative can be quite costly. Money is needed to cover the costs associated with conducting a thorough feasibility study, developing a detailed business plan and hiring professional advisors and consultants.

Options for raising funds include:

- asking potential members to contribute directly. This can be done at the end of the first informational meeting. For example, potential members may be asked to sign a pre-membership agreement. The signer agrees to join, patronize, and furnish a specific amount of initial risk capital. The initial investment may be made in proportion to the intended use of the co-op or through a flat fee.
- asking producer associations or other industry organizations to fund all or portions of the co-op development process. Many associations have a mandate to undertake research which can serve to stabilize the industry.
- applying for government funding. A number of provincial and federal funding programs exist to help in the start-up of new businesses. Some of these programs are listed in the final section of this booklet. Most require some level of matching funds from the applicant group.

The investment of money or time involved in fundraising is often an excellent way to test the level of producer commitment to project. All money collected must be managed in a manner that assures members of security and fiscal responsibility. Make a plan to address how unused development funds will be used or redistributed if the co-op isn't formed.

Step 2 Determine Business Feasibility

Purpose: To determine whether the proposed co-operative business is economically viable.

There are three main components in determining the feasibility of an agricultural co-operative:

- **Producer Survey:** A survey will determine producer interest in the project. It will also help to clarify the products and services which the co-operative might offer.
- **Market Analysis:** A market analysis will determine if the proposed co-operative has an economic role to play in the marketplace, and will clarify how it can best play this role.
- **Financial Feasibility Assessment:** The findings of the producer survey and market analysis are used to develop some basic operating assumptions, allowing for an assessment of financial feasibility. This assessment analyzes the costs associated with meeting the economic goals identified and estimates how much income must be generated to cover these costs.

Allow the scale and the complexity of the proposed business to determine the time and effort that goes into examining the feasibility of the co-operative. Depending on your situation, a feasibility study need not be elaborate and costly, but it must address the risks, benefits, strengths and weaknesses of the proposed business. A good feasibility study will determine the potential for a successful business, but it will not provide any guarantees. There are no right or wrong answers in a feasibility study – only informed evidence that an idea will succeed or fail.

Much of the information collected to determine feasibility will also be used to develop a business plan. The major difference is that the purpose of a feasibility study is to research and analyze all of the possible options for action before a decision on a particular course of action is made. The business plan summarizes the plan of action after a decision has been made.

Throughout this step, be prepared to work with a number of external advisors who are familiar with your industry, agricultural markets and the co-operative development process. If the proposed co-op is intended to serve a large number of members or undertake complex business operations, you will want to hire or otherwise enlist a consultant to obtain an objective, independent assessment of the project's financial feasibility. An independent consultant can also help to preserve confidentiality when undertaking producer and market surveys (see page 16 for further discussion on the role of external advisors in starting a co-operative).

Producer Survey

► Survey potential members.

Survey as many potential members as possible. Producer associations, industry organizations and government representatives are useful sources for identifying potential members. Use a questionnaire to survey producers by mail or in person. Surveys can also be conducted at scheduled group or association meetings.


Ask the following types of questions in your survey:

- What goods or services do you have a need for?
- How do you feel about forming a co-operative and participating in it?
- How much business volume do you anticipate generating for the co-operative?
- Are you willing to invest in the co-operative?
- What are your location and business or service preferences?

It is important that your survey be thorough, confidential and accurate. Survey results should indicate the level of producer support in terms of business volume and whether or not there is sufficient financial commitment to organize and successfully operate the proposed co-op. Results will also be used to plan for facilities and needed equipment.

► Evaluate survey results.

In analyzing the results of the survey, estimates of both membership and volume should be conservative. Not all of the producers who are interested in the project will join and some may wait to join later. Similarly, not all who join will make the fullest use of the services provided by the co-operative.

 **Research Question:** Are producers interested in starting a co-op? What services or products are they interested in having the co-op provide?

Market Analysis

► Collect information on suitable markets, service providers, and/or sources of supply.

Collect market information by talking to people involved in each level of the marketing chain, including distributors, brokers, retailers, manufacturers, suppliers, and consumers of the products and services to be provided by the co-op. If the product or service intended by the co-operative is new to the market, research into who will purchase it must also be carried out.

Useful tools to gather market information include telephone surveys, personal interviews, sales figures on existing products, statistical information, and test marketing. Potential buyers and suppliers contacted should be asked about:

- quantities purchased or supplied annually and average order sizes;
- prices paid at each level of distribution for these quantities;
- pricing variation for differences in quality and product attributes (such as grade and size);
- maximum lead times required for delivery;
- seasonality of demand, supply and prices.


► Identify and evaluate potential competitors and barriers to entry.

Identify potential competitors operating in each of the markets in which the co-operative intends to operate. Critically evaluate the level of competition and the possible barriers to entering these markets. Possible barriers to entry include

the inability to source needed supplies or production inputs, consumers' loyalty to an established brandname, government regulations, and the cost of acquiring market information or processing technologies needed to compete effectively.

► Consider alternatives to the formation of a new co-operative.

Contact other co-operatives which provide similar services and assess the potential for linking up with existing businesses. Even if starting a new co-operative is the best course of action, the search for beneficial links with other co-operatives and businesses should continue on an ongoing basis.

 **Research Question:** Does the proposed co-operative business have an economic role to play in the market place?

Financial Assessment

► Determine capital requirements.

To determine the capital requirements of the proposed co-operative, you will need to make financial projections for the start-up and the first three years of operations. Cost estimates should be based on the expected business volume plus some allowance for future expansion.

Sufficient capital will be needed to cover:

- start-up costs - are those costs which are incurred before any revenues are generated. They generally include the cost of products required to start operations; initial operating and personnel costs incurred prior to starting operations; and the cost of preparing and implementing the business plan.
- operating costs - include items such as employee salaries, utilities, taxes, depreciation, interest, and marketing costs (see page 14 for a checklist of operating costs).
- capital costs - include land, buildings, machinery and equipment.

Consult with professionals and skilled technicians to determine the need for new facilities and assess the value of any existing facilities being

Section 2 - How to Start a Co-operative

considered. Investigate the possibility of leasing existing facilities and equipment as opposed to purchasing.

► Estimate expected sales and revenue.

Sales and revenue estimates for a marketing or processing co-operative should be broken down according to each commodity and quality grade handled by the business (including by-products). For a supply co-operative, estimate the sales and revenues for each type of service and product provided by the co-op.


► Develop financial statements.

Organize financial information in commonly used

statements, including:

- an income statement, which relates expected revenue to expenses;
- a balance sheet which outlines members' equity in the co-operative;
- a cash flow statement which records the inflow and outflow of cash.

Information contained in the financial statements will be used to measure the likelihood of success of the co-op in comparison to similar businesses by prospective lenders and other stakeholders.

 **Research Question:** Can the co-operative efficiently deliver the intended services or products at a price people are willing to pay?



Operating Cost Checklist

Production Costs

- Labour, including payroll taxes and benefits
- Depreciation
- Interest on Loans
- Lease payments
- Utilities
- Transportation
- Operation and maintenance expenses
- Materials and other expenses
- Rent on buildings, plant, property, and/or equipment

Marketing Costs

- Salaries, including payroll taxes and benefits
- Promotional, advertising, and entertainment expenses
- Discounts on brokerage commissions

General and Administration Costs

- Salaries, including payroll taxes and benefits
- Accounting and finance costs
- Business and director insurance, taxes, and licenses
- Travel, telephone, postage, and supplies

Distribution Costs

- Packaging, boxing, and palletizing
- Warehousing
- Transportation

Source: *Starting an Agricultural Marketing Cooperative*. Center for Cooperatives, University of California, Davis.

► Conduct a sensitivity analysis.

An important part of the feasibility analysis is to review the sensitivity of financial projections to changes in operating assumptions. For example, what impact will a 25 percent decrease in product sales have on profitability? Other key factors might include wage rates, operating efficiencies, and interest rates. Include “best” and “worst” case scenarios in your analysis. Note that a co-operative’s lowest possible operating costs generally occur when its members furnish it with the maximum amount of business it can handle.

► Examine financing options.

Co-operative businesses finance their operations through a combination of member investment and debt financing. Investment of capital in a co-op by non-members is prohibited under the B.C. Cooperative Association Act.

The best source of financing for a co-operative is from members—member equity forms the basis for producer ownership of the business and is used to apply for debt financing. Ways in which members contribute equity capital to their co-ops include:

- direct contributions such as membership fees or share purchases;
- agreements to withhold a portion of net earnings from the co-op’s business operations;
- assessments based on units of product or services sold or purchased.

The more financing members provide, the less the co-operative business will need to borrow. A general rule of thumb for a new co-operative business is to meet forty to fifty percent of its capital requirements through member investment.

► Hold a general meeting to review the results of the feasibility study.

Once the three components of the feasibility study are complete, hold a general meeting of the potential membership to review the results. Prepare for the meeting by sending copies of the feasibility results to potential members along with a summary of the steering committee’s recommendations. Encourage participants to bring other potential members.

Include the following items in your agenda:

- a step-by-step review of the findings of the producer survey, the market analysis, and the projected financial feasibility of the co-op.
- discussion about all aspects of the feasibility study including the level of producer commitment required, potential markets and competition.
- a vote on whether or not to proceed. If the vote is positive, form subcommittees and delegate the tasks involved in completing the next steps in the development process.

Decision Question: Are potential members confident enough in the results of the feasibility study to proceed with the formation of the co-op?



Feasibility Study Checklist

The following factors will need to be addressed in order to determine the feasibility of the proposed co-operative business:

- | | |
|--|---|
| <input type="checkbox"/> Market Opportunities | <input type="checkbox"/> Management Requirements and Availability |
| <input type="checkbox"/> Assessment of Competition | <input type="checkbox"/> Member Investment and Debt Requirements |
| <input type="checkbox"/> Start-up Costs | <input type="checkbox"/> Raw Product and/or Level of Patronage Needed |
| <input type="checkbox"/> Capital Costs | <input type="checkbox"/> Size of Membership Needed |
| <input type="checkbox"/> Operating Costs | <input type="checkbox"/> Potential Gross and Net Revenue |
| <input type="checkbox"/> Personnel Requirements | |



The Role of External Advisors

Throughout the various steps involved in starting a co-operative your group will need to consult with a number of external advisors. For example:

- Representatives from the B.C. Ministry of Agriculture and Food and other government agencies can be valuable sources of support. As well as being an important source of industry and market information, they can help you to identify potential members, professional advisors, and sources of government funding.
- Accountants, potential lenders or other financial specialists should be contacted early on in the development process for financial advice regarding anticipated capital needs, methods of financing, and the preparation of loan applications. An accounting firm may also be hired to establish a bookkeeping system, maintain and file tax records, and develop a capital program for the new co-op.
- Business consultants and co-operative specialists can provide assistance in a broad range of areas, including feasibility assessments, the development and implementation of business plans, the development of educational and training programs, the design of appropriate governance and capital structures, and group administration.
- A lawyer can help to prepare and will be needed to review the legal documents required to incorporate and organize the co-op. Legal counsel should also be sought when acquiring property, borrowing money, and writing agreements and contracts.
- Technical advice may be needed periodically from a variety of technicians. For example, technical advice concerning equipment and facilities is often essential to developing a production plan and determining the capital requirements for the business.

It is important to remember that calling on the services of external advisors can not replace leadership from the steering committee. The responsibility for starting a co-operative and seeing the project through to completion ultimately rests with the members of the proposed co-operative. The steering committee must continue to play an active role in each step of the development process by collecting and disseminating information, setting up and facilitating general and committee meetings, and acting as a liaison between potential members and external advisors. Decisions regarding the co-operative must come from the potential members of the co-op—professional advisors should never be in decision-making positions.

When seeking out professional advisors, choose carefully. The advisor should understand the agri-food industry, as well as co-operative business structures and practices. Find someone with whom you feel you can establish a good working relationship. When searching for names ask business associates, members and staff from other co-operatives, government representatives, family and friends. For first meetings, be prepared to clearly explain your situation and what you are looking for. Ask what services the advisor or firm provides, how they can assist you and how much they charge for their services.

Step 3 Develop a Business Plan

Purpose: To document in detail how the co-operative will operate and how it will be organized and financed.

Careful planning is one of the most vital parts of any successful business. A business plan outlines and defines every aspect of a business's operations—including who is involved, what its activities are, how it is organized, and how it is financed. Documenting these aspects in detail will help your group to discover potential problems before they happen, allowing you to plan and prepare to avoid them. Clearly outlining the features, goals and objectives of the proposed co-op on paper will also help to create a common purpose among members and will put them in a better position to explain the co-operative to others, including prospective members, lenders, customers and suppliers.

Business plans usually follow a conventional format. A sample outline for a business plan is provided on page 19. In general, all business plans contain the following five main components:

- a description of the business;
- a marketing plan;
- a financial plan;
- a production plan;
- a human resources plan.

Each planning component should cover a period of at least three years and should contain clearly defined goals, strategies and time lines for implementation.

The development of a business plan for a co-op is much the same as for any other business. There are a number of resources available to guide producers through the development of a business plan (see page 34). Below are a few guidelines specific to developing a plan for a co-operative business.

► **Describe the governance structure of the proposed co-operative.**

In the business description clearly describe the governance structure of the co-operative, including

the basis for director representation, voting methods, board officers and their terms. You will also need to define each of these aspects in the co-operative's rules, discussed in the following section. Note that the directors of a co-operative may be selected to represent geographical districts, commodities handled, or some other basis that provides equitable representation of the membership.

► **Develop a marketing strategy.**

Describe how the co-operative proposes to gain and defend market share on an ongoing basis. You will need to develop a plan to address how the co-op will react to the various strategies that competitors may use to retain their business, such as price changes or better contract terms. Two basic types of marketing strategies exist:

- sell the product or provide the service at a lower price than the competition; or
- invest in creating a product or service with qualities not currently offered in the market.

Offering a product or service at a lower price than any competitor is the most effective approach to gaining and defending market share. This strategy demands that costs be held to levels lower than those achieved by others in the industry. Investing in creating unique products or services will likely increase costs. However, this can be an effective strategy if competitors have difficulty offering similar products or services at a lower cost. Regardless of your chosen marketing strategy, organize the co-operative to operate in the lowest cost, most efficient manner possible.



Research Question: How will the co-operative gain and defend its market share?

► **Carefully evaluate capital requirements.**

Decisions regarding capital requirements will influence the co-operative's operations for many years. Avoid using so much capital for fixed facilities and start-up that cash flow is jeopardized.

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To avoid elaborate or costly facilities, a new co-operative should initially limit the services or products offered to those absolutely needed by the members. If successful, the co-op can expand at a later date.

► **Develop a plan which addresses the treatment of co-op surplus and member equity.**

When developing the financial plan, seek the advice of an accountant or other consultants familiar with co-operative finance to ensure that the unique financial requirements of co-op businesses are addressed. In particular, the plan must address:

- the amount of net income (surplus) to be paid to the members as patronage refunds at the end of each fiscal year;
- the amount of net income to be retained within the co-op as equity which is allocated to the members (retained patronage refunds);
- the amount of net income to be retained within the co-op as unallocated equity;
- when and how member equity will returned to the members.

A systematic program for returning equity to members ensures that the people who own and finance the co-op are also those who currently use and benefit from the services provided. When the co-operative's equity needs are met, a portion of each year's income should be used to pay out the oldest patronage-based equity to members. This equity is replaced by funds retained from the current year's patrons.

For a non-technical introduction to co-operative finance, please refer to the second booklet in this series, entitled "Financing Agricultural Co-operatives: An Overview."

► **Develop a communication and training program.**

Ongoing communication and education are key aspects of a co-operative's human resource plan

and training policy. When members are involved and informed about their co-operative, they are more willing to invest in and patronize their co-operative. Effective communication and education programs require financial support and must be backed by specific board and management policies.

Establish a director training schedule to discuss topics such as legal liability, co-operative finance, management supervision, and member relations. Plan to hold information sessions for the entire membership which cover topics such as member responsibilities, co-operative operating policies, and the tax treatment of patronage refunds.

► **Hold a meeting to review the business plan.**

The purpose of this meeting will be to evaluate the business plan, make adjustments and either approve or reject it. Prepare a report which summarizes the findings of the business plan and distribute it to potential members before the meeting. Conclude the report with the committee's recommendation on whether or not to proceed with the development of the co-operative.

Include the following items on your agenda:

- a step-by-step review of all aspects of the business plan;
- discussion regarding the proposed business organization, management structure, governance structure, financial needs, member equity arrangements and any adjustments which need to be made;
- a vote on whether or not to proceed with the organization of the co-operative.

Decision Questions: Is the business plan acceptable to the membership? Should the organization of the co-op continue?



Sample Business Plan Outline

Title Page
Executive Summary
Table of Contents

1. Business Description:

- Mission Statement; Business Goals; Business Background (History of the Business, New Opportunities and Key Success Factors for the Business).
- Business Structure (Management Team, Management Organization Chart, Board of Directors, Member-owners, Business Advisors).

2. Marketing Plan

- Product or Service Description (Specifications; Development Stage; Copyrights, Patents and Trademarks; Research and Development Activities).
- Market Research and Analysis (Industry Analysis; Target Market Analysis, Description and Size; Sales Volume Potential; Secondary Target Markets and Key Characteristics).
- Product or Service Testing.
- Competitive Analysis (Description of Competition; Strengths and Weaknesses of Competitors; Competitive Advantage).
- Political/Regulatory/Legal Factors (Trade and Tariff Regulations; Relevant Provincial/Federal Legislation).
- Marketing Activities (Product or Service Strategy; Merchandising; Pricing Strategy; Price Determination; Risk Assessment of Price Strategy; Distribution Strategy; Communication Strategy; Sales Force Strategy; Market Penetration and Growth Strategy).

3. Production Plan

- Land, Buildings and Facilities; Site Location; Equipment; Materials and Supplies.
- Production, Procedures and Cycles; Production Strategies; Risk Management for Production.
- Facility Construction or Expansion Schedule; Environmental Assessment and Safety Plan.
- Political, Legal and Community Aspects of Production.

4. Human Resources Plan

- Employee Plan; Organizational Chart.
- Staff Hiring and Training Policy.
- Member and Board Education and Training Policy.

5. Financial Plan

- Income Statement; Cash Flow Statement; Net Worth or Balance Sheet Statement.
- Break-even and Sensitivity Analysis.
- Source of Capital and their Uses; Loan Summary.
- Financial Indicators.

Plan of Action Schedule
Appendices

Source: *Rural Business Planner CD-ROM*, Canadian Farm Business Management Council; Agriculture and Agri-Food Canada.

Step 4 Draft Legal Papers and Incorporate

Purpose: To prepare necessary legal documents and incorporate the co-operative.

Incorporation gives the co-operative a distinct legal standing and limits the financial liability of its members. A co-operative can be incorporated under federal or provincial legislation. Most agricultural co-operatives in Canada are incorporated under provincial legislation. Members of the steering committee should be familiar with the Cooperative Association Act and the Companies Act to ensure that the requirements of the province of British Columbia are met. If it is the co-operative's intent to conduct business in more than one province, you should investigate federal incorporation.

Use the services of an attorney or advisor familiar with co-operatives throughout this step. Such services are important to ensure that all documents comply with provincial and federal laws and will not conflict with operating procedures of the co-operative.

► **Select and register a name.**

According to B.C. law a co-operative's legal name must contain the word "co-operative." You may also include one of these words: association, society, union or exchange. You cannot use the terms "company" or "limited." Note that it is illegal in British Columbia to use the term "co-operative" in the name of an organization unless it is incorporated under the Cooperative Association Act.

A Name Approval Request Form (available from the Ministry of Finance and Corporate Relations) must be submitted to the Registrar of Companies. A search will be conducted to ensure no other group is using the same name. The name search is a mandatory requirement toward incorporation.

► **Draft the Memorandum of Association.**

The Memorandum of Association is a legally binding, witnessed document. It sets out basic information about the co-operative and specifies:

- the name of the co-operative;
- the co-op's registered office address;
- business restrictions and restrictions of powers;
- the value, type and number of shares;
- the names and addresses of the founding members.

A minimum of five people are needed to incorporate a co-operative in British Columbia.

To belong to a co-operative, individuals must purchase at least one member share. In addition to member shares, different classes of investment shares can be issued to members, each with different values and rights attached.

For a complete description of the Memorandum of Association, see the Cooperative Association Act, Schedule A.

► **Draft the Rules of the Association.**

The Rules of the Association state how the co-operative will conduct business. To incorporate in B.C., the rules must be consistent with the Cooperative Association Act which specifies which topics must be addressed. Important areas that require rules include:

- membership requirements;
- the rights and responsibilities of members;
- the number of shares a member may hold;
- how shares are transferred;
- the grounds and procedures for member expulsion;
- how meetings are called and conducted;
- how directors are elected or removed, their duties, terms of office, and compensation;
- the dates of the fiscal year;
- the requirement to conduct business on a co-operative basis;
- how net surplus of the co-op will be distributed;
- the process for redeeming member equity;
- the handling of losses;
- how non-member business is treated;
- the dissolution of the co-operative;
- the process for amending the rules.

A sample set of rules is provided in Schedule C of the Act. However, since no single set of rules fits every co-operative, the sample rules should be changed to reflect your co-operative's specific mission and objectives. Considerable care should be given to drafting the rules as they are legally binding on all members of the co-operative. Once they are filed and approved, the rules can only be changed by an extraordinary resolution. An extraordinary resolution requires a majority vote of not less than 75 percent of the membership present at a general meeting and the approval of the Registrar of Companies.

► **Incorporate the co-operative.**

Incorporating a co-operative under B.C. legislation involves paying an incorporation fee of \$250* and submitting the following documents to the Superintendent of Co-operatives in Victoria:

- Memorandum of Association;
- Rules of Association;
- Notice of Registered Office;
- List of First Directors;
- Statement of Intent.

The List of First Directors includes the names, and the occupations of the founding directors (often the members of the steering committee). It must also state the period for which the directors will serve. The term of the first directors usually lasts until the first general meeting.

The Statement of Intent is a supplementary document and is not legally binding. However, the Superintendent of Co-operatives will request a copy and will use it to determine if the business will in fact operate on a co-operative basis. The Statement includes the following information:

- the services the co-op intends to provide;
- the way in which the co-op proposes to provide those services to its members;
- any connection the co-op expects to have with other co-op organizations or businesses.

* Fees for incorporating a co-operative may increase over time—check with the Registrar of Companies for the current amount.

Once the documents are approved by the Superintendent, the B.C. Registrar of Companies issues a certificate of incorporation and the co-operative is entered on the corporate register.

► **Draft other legal documents.**

In addition to the documents required for incorporation, legal agreements between the members and the co-op, such as membership and marketing agreements, should be drafted at this point. You will need to ensure that such agreements are consistent with the co-op's rules and memorandum. These documents should therefore be drafted by (or, at a minimum, reviewed by) an attorney experienced with agricultural co-operatives.

Co-operative marketing agreements specify the volume of product members are obligated to market or deliver to the co-operative (see page 22). The following subjects should be specified in a marketing agreement:

- the extent of members' obligation to market through the co-operative;
- the terms and conditions under which the products will be marketed;
- accounting procedures.

For marketing co-operatives that choose not to use marketing agreements, these subjects should be addressed within the co-operative's rules.

► **Hold the first annual general meeting to approve the rules and elect directors.**

Within three months of incorporation, the board of directors must call the first annual general meeting of the co-operative. At the meeting, members will need to elect directors to the board and vote to accept or amend the rules of the co-op. Any amendments to the rules are subject to review by legal council. Before the meeting, circulate a copy of the rules and a list of board candidates to all prospective and current members.

Decision Questions: Will the bylaws be approved? Who will serve on the board of directors?



Co-operative Marketing Agreements

Marketing agreements are contracts between the co-operative and its members which can benefit both the individual producer-members and the business. Producers benefit from knowing they have a “home” for a portion or all of their production—a particularly valuable asset when selling perishable commodities in markets where there are few buyers. For the co-operative, they provide management the means to coordinate the volume of business with the size of available facilities, allowing the co-operative to achieve the lowest possible operating costs. Marketing agreements may also enable management to pre-sell members’ produce on the basis of timing considerations included in these contracts.

Marketing agreements should be prepared with the help of an attorney and should include the following:

- A description of the commodities to be produced, packed, processed, and/or marketed by the co-operative, specifying the quantity to be delivered to the co-operative. Depending on the particular circumstances, the quantity to be delivered can be stated in terms of weight or the production of a specific acreage. If the contract is on an acreage basis, the co-operative assumes the yield risk. If the contract is based on a delivered weight basis, the producer bears the risk of being unable to deliver the specified yield.
- A statement concerning the disposition of production grown in excess of the contracted commitment. Some co-operatives require that all crop produced in excess of the marketing agreement be destroyed to prevent it from flooding the market and depressing prices. Other co-operatives require member-growers to deliver all the commodity they produce, while still others allow members to market excess production at their own discretion.
- The time and place where legal title of ownership is transferred from the grower to the co-operative.
- A description of how and when the producer will be paid and the method of determining the value of the commodity.
- A provision obligating the grower-member to notify the co-operative if a lien (such as a claim securing a bank loan) has been placed against the crop covered by the marketing agreement.
- A statement of the rights and obligations of the co-operative and the member in the event that the member fails or refuses to deliver the commodity specified. This section specifically defines those actions that breach the contract and the remedies to be applied.
- The life span of the agreement and the time period during which the contract may be extended or during which either party may withdraw.
- An “Act-of-God” clause which holds each party harmless in the event of natural disasters or events beyond human control.

Source: *Starting an Agricultural Marketing Cooperative*. Center for Cooperatives, University of California, Davis.

Step 5 Implement the Business Plan and Begin Operations

Purpose: To implement the business plan and prepare for the start-up of the co-op's operations.

A number of important activities will need to be completed before the co-op can begin operations. These activities include: conducting a membership drive, acquiring capital, obtaining facilities, setting up accounting systems, hiring management and training staff.

To plan for the start-up of the co-op's operations, define and determine the sequencing of all the tasks connected with making the business operational and ready to serve the members. Assign directors individual tasks or committee responsibilities to implement the business plan. Use committees to work in areas such as membership, facilities and site selection, finance, and communications. Committees can include members, but at least one board member should be on each committee to enhance communication.

Committees can also be useful in the ongoing management of the co-operative. Additional temporary or permanent committees might include advisory groups for youth and young member activities, education and training, long-term planning, commodities and services, member and public relations, and legislative affairs.

► **Hold a membership drive to secure equity and patronage commitments.**

A new co-operative must have enough members to start operation and justify its existence. To encourage membership, it is important for producers to understand what their co-operative is and how it operates. Prepare a summary of the co-op's business plan and use it to outline the advantages of membership to potential members, such as the provision of services or the potential for increased returns.

If the co-operative is unable to solicit sufficient patronage and equity commitments from producers during the membership drive, table the project and reassess the feasibility of the proposed business, its operations and its financial and organizational structure.

Decision Question: Do you have a strong enough commitment from producers to begin operations as outlined in the business plan?

► **Apply for debt capital.**

Once member financing is secured, it can be used as a basis to apply for debt capital. Lenders will insist on seeing certain key documents before considering a loan request, including:

- projected volume of business;
- market information;
- projected cash flow information;
- operating statement;
- balance sheet;
- schedule of fixed asset costs and depreciation;
- a summary of scheduled financing needs and capital sources.

This information should be readily available within the co-operative's business plan.

► **Acquire facilities.**

Facilities need to be conveniently located for members but should also enable the establishment of good distribution links with suppliers, markets, and other business services. Factors to consider in locating facilities include:

- proximity to members and markets;
- transportation routes, highways and railways;
- availability of labour;
- availability of land and buildings;
- levels of taxation;
- environmental and other regulations.



Board and Management Responsibilities

Directors represent members and are legally responsible for the performance and conduct of the co-operative. Depending on the complexity of business operations, the board may delegate responsibility for daily operations to a hired manager. The manager, in turn, selects and manages the staff of the co-operative.

Questions often arise as to the division of responsibilities between the board and hired management. Sometimes they overlap and an exact division cannot be made. One factor to consider is the time period—long-term decisions are the responsibility of the board, while management makes short-term decisions. For example, decisions involving policy are the responsibility of the board, and day-to-day functions are handled by management. The use of policy and procedure manuals and job descriptions along with frank discussions of questions when they arise can help maintain an understanding of the division of responsibility in the governing and operation of a co-operative enterprise.

Board responsibilities include:

- functioning as trustees for the members in safeguarding their assets in the co-op;
- setting the goals, objectives, and general policies of the co-op;
- adopting long-term strategic plans;
- employing a competent manager and evaluating performance;
- preserving the co-operative character of the organization;
- establishing an accurate accounting system;
- adopting an annual operating budget;
- appointing an outside firm to perform an annual audit;
- controlling the total operation;
- authorizing the distribution of the co-operative's net earnings and the redemption of members' equities;
- keeping the membership informed about activities in the co-operative.

Management responsibilities include:

- managing or directing daily business activities;
- carrying out policies set by the board;
- setting goals and making short-term plans;
- employing, training, and discharging employees;
- organizing and coordinating internal activities in compliance with co-operative goals and objectives and board policies;
- keeping complete accounts and records and developing an annual operating budget;
- providing the board with periodic reports.

► **Set up record keeping and accounting systems.**

Accurate accounting of money is critical to operating on a sound business basis and to avoid year-end losses. Requirements include:

- developing and installing an accounting system;
- preparing financial reports, including operating and capital improvement budgets;
- reporting to the membership in a clear and timely manner;
- providing for auditing services;
- conducting long-term planning.

In addition to the complete and accurate documentation of income and expenses for planning and tax purposes, a co-operative must keep exact member records. Member records account for members' initial and subsequent investments and track members' patronage. The information included in member records is needed to determine the amount of net earnings members are entitled to at the end of the fiscal year. Members will also need these records for their own personal accounts, particularly for income tax purposes.

An annual independent audit serves as an outside appraisal of the co-operative's financial condition, and as a check on business procedures and compliance with tax and other legal requirements. A professional independent audit may be required by the Superintendent of Co-operatives, particularly if the co-op has a broad base of membership. Other agencies may require an independent audit as well, such as government funding agencies or major lenders.

► **Select a manager.**

Selecting the manager is one of the most critical tasks for the new board of directors. Begin the task by developing a position description. Include a supplemental statement outlining the relationship between the manager and the board of directors in a co-operative, and the responsibilities of each (see page 24 for a discussion of board and management responsibilities).

Qualities to seek in a manager include education, experience, and the ability to work with people. Judge these qualities from three perspectives: commodity expertise, management skills, and a knowledge of co-operatives. The candidate will need to understand the special nature of the co-operative's patrons because they are both customers and owners. This dual relationship adds a unique dimension to a candidate's requirements to work with people on a daily business basis.

Good managers are hard to find, especially for co-operatives. For leads, contact the managers of other co-ops, directors of co-op associations, the advisers who helped form the co-operative, and employment agencies.

► **Publicize the co-op's activities and develop community recognition.**

Publicizing the co-op's accomplishments and activities will help to:

- create a positive image of the co-op in the community;
- increase awareness about the benefits of membership;
- keep current members apprised of the co-op's progress.

Ways to develop community recognition of the co-op include:

- writing news releases for local papers and association newsletters;
- having board members do presentations for the chamber of commerce and other community groups;
- celebrating milestones such as opening a facility, installing major equipment, signing a contract or receiving a grant.

Remember to involve local politicians, from all levels of government. Their support can be critical to the co-operative's ongoing success.



Member Rights and Responsibilities

Members are the most important part of a co-operative—they are the owners of the business and their needs are the reason for its existence. Just as the board and management of a co-operative have specific duties and responsibilities, members have certain responsibilities and rights which they must accept and exercise for the business to effectively meet their needs.

Member responsibilities include:

- patronize and use the services provided by the co-operative;
- be informed about the co-operative;
- finance the co-operative through the purchase of shares and other forms of member investment;
- attend meetings and participate on committees and in other activities of the organization;
- assist in amending the rules and other legal documents as required;
- evaluate the performance of the co-operative;
- communicate complaints and suggestions to management and board of directors;
- support the development of other co-operatives;
- elect and evaluate directors.

Member rights normally include:

- adopt and amend the Memorandum of Association and Rules of the co-operative;
- elect, and if necessary, remove directors of the business;
- dissolve, merge or consolidate the co-op or form a joint venture with others;
- require officers, directors, and other agents to comply with the law under which the business was set up, and with its Memorandum of Association, Rules and membership and marketing agreements;
- hold directors and officers liable for damage injurious to members;
- examine the annual reports.

Adapted from *Understanding Cooperatives: Who Runs the Cooperative Business? Members*, factsheet prepared by the United States Department of Agriculture, Cooperative Services.

GUIDELINES FOR SUCCESS

(Adapted from *How to Start a Co-operative*, United States Department of Agriculture, Rural Business/Cooperative Service).

Several of the guidelines for the formation of a co-operative apply to more than one step of the process and are also critical to the continuing success of the co-operative's operations.

► **Keep members informed and involved.**

When members are involved and informed about the co-operative, they are more willing to patronize and invest in the co-operative. Member responsibilities start with the conception of the co-operative and remain throughout the life of the business to assure successful organization, sound management, and operation (see page 26).

Ongoing communication and education programs (targeted to co-op members, directors, management and staff) are an integral part of the success of a co-operative business. Such programs require financial support and must be backed by specific board and management policies.

► **Use advisors and committees effectively.**

Effectively organizing human resources and using the expertise of advisors is central to the success of any business. Maximum participation by potential members is crucial to the success of a co-operative.

Committees provide members with the opportunity to develop skills and to participate in the affairs of their co-operative—increasing their feeling of ownership and responsibility for its success. Committees are useful for both the start-up and the ongoing management of the co-operative.

► **Maintain good board-manager relations.**

The differing responsibilities of the board of directors and the manager must be clearly understood and carried out. Directors represent members and are legally responsible for the performance and conduct of the co-op. Directors'

three major responsibilities are to set policies, employ and evaluate the general manager, and secure adequate financing for the co-operative. Management carries the responsibility for the daily operations of the co-op. The use of policy and procedure manuals and job descriptions along with frank discussions of questions when they arise can help to maintain good board and management relations.

► **Conduct effective meetings.**

A co-operative is a business and its meetings should be conducted in a businesslike manner. Parliamentary procedure is appropriate for orderly democratic group action. An effective meeting is the result of carrying out several successive steps: preparation, good facilitation, member participation, following an agenda, and following through on meeting actions.

► **Follow sound business practices.**

The major challenge to co-operative members, the board of directors, and operating management occurs after business operations begin. Operating on a sound business basis includes the implementation of an accurate accounting system, regular preparation of financial statements, reporting to the membership in a clear and timely manner, and keeping exact member records. It also involves a continual evaluation of costs and the productivity of labor, facilities, equipment and technology employed by the co-op.

Once the co-operative is organized and operating, members will need to consider how they want it to grow. This task requires both short-term planning and long-term strategic planning. Strategic planning looks three to five years ahead and involves developing a vision and mission statement, appraising the future, assessing the external and internal business environment,

Section 3 - Guidelines for Success

defining desired goals with stated objectives, and developing a course of action to achieve these goals.

► **Forge links with other co-operatives and organizations.**

The search for beneficial links with other co-operatives, businesses and associations should continue on an ongoing basis. Alliances with other

businesses can be valuable sources for supplies, marketing outlets, and related services. Membership in provincial and national associations can keep the new co-operative abreast of what others around the country are doing. These associations can be sources of education and training programs, and legislative and public relations support activities. They can also help to identify sources of special expertise.

RESOURCES AND REFERENCES

Resources

▶ **Ministry of Agriculture and Food**

PO Box 9120 Stn Prov Govt
Victoria, British Columbia V8W 9E4
Ph: (250) 387-5121
Fax: (250) 387-1522
<http://www.agf.gov.bc.ca>

With regional and district offices in Abbotsford, Cranbrook, Creston, Courtenay, Dawson Creek, Duncan, Fort St. John, Kamloops, Kelowna, Oliver, Prince George, Sidney, Smithers, Vernon and Williams Lake.

▶ **Ministry of Small Business, Tourism and Culture - Co-operative Development Program**

Fourth Floor, 1405 Douglas Street
PO Box 9800, Stn Prov Govt
Victoria, British Columbia V8W 9W1
Ph: (250) 387-5998
Toll Free: 1-800-988-8299
Fax (250) 356-8948.
<http://www.co-op.sb.gov.bc.ca>

Provides assistance and information to people interested in forming co-operatives in British Columbia.

▶ **Centre for the Study of Co-operatives**

101 Diefenbaker Place
University of Saskatchewan
Saskatoon, Saskatchewan S7N 5B8
Ph: (306) 966-8509
Fax: (306) 966-8517
<http://www.co-op.studies.usask.ca>

The Centre for the Study of Co-operatives is a post-secondary teaching and research centre. The Centre offers university courses on co-operatives and undertakes and publishes research about co-operatives. It also maintains a resource centre of materials by and about co-operatives.

Funding Programs

► Partners in Progress

This program is targeted to groups consisting of two or more individuals, companies, organizations or associations, who want to work together in partnership to benefit B.C.'s agri-business, fisheries and food sectors. The Partners in Progress program is made up of:

- Partners in Development: provides funding to enable team members to broaden their understanding of the issues and opportunities so they can clarify their common goal and develop a workable action plan; and
- Partners in Action: provides funding to help established groups who know what they want to do and have planned how to achieve their goal as a team to carry out projects that have the potential to benefit all the partners as well as the sector and the community.

Funding is acquired through the Ministry of Agriculture and Food and requires a minimum of 25% of total costs to be provided by the applicant group. Applications are available at all BCMAF district offices.

Ministry of Agriculture and Food
PO Box 9120, Station Prov Govt
Victoria, B.C. V8W 9B4
Contact Person: Sherry Greening
Ph: (250) 386-1833
Fax: (250) 953-5162
E-mail: sherry.greening@gems7.gov.bc.ca
<http://www.agf.gov.bc.ca>

► Investment Agriculture Foundation (IAF)

The purpose of the IAF is to foster increased long-term growth, employment and competitiveness of B.C.'s agriculture and food industry. Strategic priorities of this program include: the increased potential of B.C. agriculture through competitiveness assessments, market research and analysis, new product development, and increased value-added processing. Funding is provided to legally recognized commercial and non-profit organizations, including co-operatives.

B.C. Investment Agriculture Foundation
P.O. Box 8248
Victoria, B.C. V8W 3R9
Ph: (250) 356-1833
Fax: (250) 953-5162

► **Partners in Co-operatives (PIC) Fund**

Provides financial assistance toward the incorporation of new co-operatives through the funding of activities such as member/board development, rule design, and community seminars. Typical funding is between \$2,000 and \$5,000 and is provided through the Ministry of Small Business, Tourism and Culture's Co-operative Development Program.

Co-operative Development Program
Sixth Floor, 1405 Douglas Street
P.O. Box 9805, Stn Prov Govt
Victoria, B.C. V8W 9W1
Contact Person: Bhagwant Sandhu
Ph: (250) 387-5998
Fax: (250) 387-6055
Toll Free: 1-800-988-8299
<http://www.co-op.sb.gov.bc.ca>

► **Technology Assistance Program (TAP)**

Provides financial assistance to small and medium sized B.C. companies undertaking research, product development or process improvement projects which are engineering or science oriented and which involve technology or research. Management consulting or market research projects are not eligible. Funding of up to \$40,000 is available, with the amount of the contribution equal to 50% of the project costs. Funded by the Ministry of Employment and Investment.

Pace Technologies Inc.
c/o National Research Council - IRAP Wing
3250 East Mall
Vancouver, B.C. V6T 1W5
Contact Person: Diana Nacer, TAP Coordinator
Ph: (604) 221-3109
Fax: (604) 221-3101
E-mail: diana.nacer@irap.nrc.ca

► **Market Assessment of Research and Technology (MART)**

MART is intended to help B.C. companies determine the market potential of their discoveries and technological innovations. Funding is provided to hire consulting services to assess the market potential and develop a marketing strategy for a product or process. Private sector proponents are required to contribute 25% of external costs. The program is funded by the Information, Science and Technology Agency and the National Research Council, and is delivered by Pace Technologies Inc.

Pace Technologies Inc.
Suite 800 - 4710 Kingsway
Burnaby, B.C. V5H 4M2
Contact Person: Christopher Ryan
Ph: (604) 433-5979 or 1-888-311-PACE
Fax: (604) 438-6564
E-mail: ryan@bc.ctn.nrc.ca
<http://www.scitech.gov.bc.ca/guide1/mart.htm>

Section 4 - Resources and References

▶ **Industrial Research Assistance Program (IRAP)**

The National Research Council delivers a number of financial assistance programs under the umbrella of the Industrial Research Assistance Program (IRAP) including financial assistance for small and medium-sized companies wishing to enhance their technological capability. Eligible activities include technical feasibility studies; small-scale research and development; external short-term or small-scale technical assistance. IRAP will cover up to 75% of eligible project costs, up to \$15,000 per project and \$25,000 per applicant per year.

IRAP -BC Regional Office
National Research Council
3250 East Mall
Vancouver, B.C. V6T 1W5
Ph: (604) 221-3100
Fax: (604) 221-3101
<http://bc.ctn.nrc.ca/irap/>

▶ **Program for Export Market Development (PEMD)**

PEMD provides contributions towards the costs incurred by companies in the development of export markets. Contributions are repayable based on incremental sales in specified markets. Funded by Industry Canada.

Industry Canada
International Trade Centre
2000-300 West Georgia Street
Vancouver, B.C. V6B 6E1
Contact Person: Jeanette Desmarais
Ph: (604) 666-3947 or 666-5000 or 666-0434
Fax: (604) 666-0954
E-mail: desmarais.jeanette@ic.gc.ca
<http://www.dfait-maeci.gc.ca/english/trade/handbook/menu.htm>

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Co-operative Development Guides

B.C. Business Co-operatives -A Start-up Guide. Province of British Columbia. (Pamphlet)

Factors Critical to the Success or Failure of Emerging Agricultural Cooperatives. R. Sexton and J. Iskow. Giannini Foundation Information Series No. 88-3. Giannini Foundation of Agricultural Economics, University of California. June 1988. (Book)

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Business Planning

Preparing a Business Plan: A Guide for Agricultural Producers.

A series of guides available for a wide range of commodities. Published by BCMAF as part of Planning for Profit. Available through BCMAF district offices. Copies can also be downloaded from the B.C. FBMI-net site at <http://FBMI.net.ca/bc>. (Series of handbooks)

Rural Business Planner CD-ROM.

A flexible and easy to use software package consisting of a business plan outline, definitions, examples, and a series of checklists. Also includes a searchable resource library.

Available from: Canadian Farm Business Management Council. 75 Albert Street, Suite 1110, Ottawa, Ontario, K1P 5E7. Toll Free: 1-888-232-3262.

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Journal of Cooperatives. Produced by the National Council of Farmer Cooperatives. 50 F Street N.W., Suite 900, Washington, D.C. 20001. (Journal)