



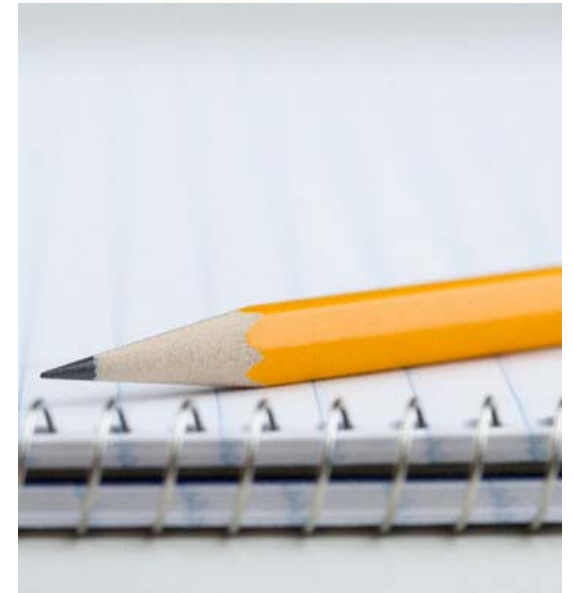
Introduction To Cooperatives



*South Lake Tahoe
May 23, 2018*

Learning Objectives

- ✓ What is a Cooperative?
- ✓ Cooperative History
- ✓ Cooperatives in the Community
- ✓ Classifying Cooperatives
- ✓ Benefits of Cooperation



What is a Cooperative?

A Cooperative Is A Business

- Owned and democratically controlled by the people who use its services
- Whose benefits are distributed equitably on the basis of use

A Cooperative Is A Business

- Not a social club or public service organization
- Must follow sound business practices

A Cooperative Is A Business

- Normally organized as a Corporation
- Corporate Legal Documents
 - Articles, Bylaws, Board Policies
- Corporate Governance Structure
 - Directors, Officers, Management

Member Ownership

- Non co-ops focus on the bottom line; co-ops also focus on member needs

Member Ownership

- Non co-ops focus on the bottom line; co-ops also focus on member needs
- **Members must provide equity, usually in proportion to use**

Member Control

- **One-member one-vote**
or weighted voting
based on use (*patronage*)



Member Control

- One-member one-vote or weighted voting based on use (*patronage*)
- **Members exercise control by**
 - **Electing Directors, usually Members**

Member Control

- One-member one-vote or weighted voting based on use (*patronage*)
- Members exercise control by
 - Electing Directors, usually Members
 - **Approving articles and bylaws**
 - **Voting on major changes in the business**

Benefits Distributed According to Use

- **Services Received**

Benefits Distributed According to Use

- Services Received
- **Earnings Distributions**
 - Limited return on equity
 - Patronage refunds

Patronage Refund

- Distribution of earnings from a cooperative to a patron
- Based on the patron's *pro rata* share of all business conducted with patrons during the year

Patronage Refund

- If ABC Co-op earned **\$500** last year, and
- ABC Co-op did **8 percent** of its business with Ms. Smith, then
- **Ms. Smith is entitled to a Patronage Refund of \$40** ($\$500 \times .08$)



Unique Roles of Members

Roles	Functions	Actions
Customer	Patronize Profit Generation	Buy / Sell Transactions
Patron	Profit Distribution	Patronage Refunds Per-Unit Retains
Owner	Ownership	Investment & Redemption
Member	Control	Vote

Which role is predominant in member's minds?

Most say the Customer role is predominant.

Serving customers is the **end** and the roles of patrons, owner and member are **means** to the end.

CHALLENGE Inherent conflict of interest between customer, patron, and owner roles



Cooperative History

Philadelphia Contributionship

- Philadelphia Contributionship for the Insurance of Houses from Loss by Fire -1752



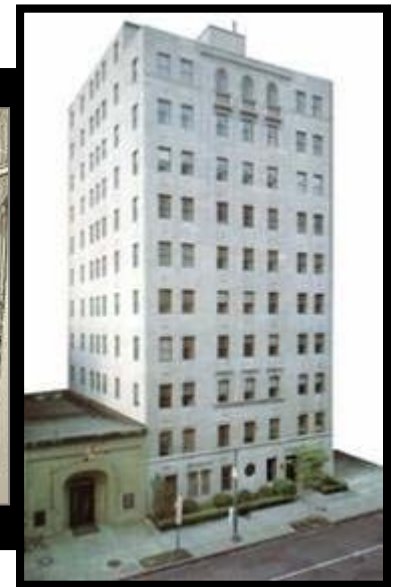
Rochdale Pioneers



Rochdale Principles

- Democratic Control (*One Member - One Vote*)
- Open Membership
- Limited Return on Capital
- Distribution of Surplus on the Basis of Patronage
- Cash Trading Only
- Selling only Pure, Unadulterated Goods
- Member Education in Cooperative Principles
- Political and Religious Neutrality

Granger Movement – 1870's



Farmer Co-ops – 1890's to 1920's

■ Californians Developed Large, Centralized Co-ops

- **1893** California Fruit Growers Exchange (*Sunkist*)
- **1912** California Associated Raisin Company (*SunMaid*)
- **1917** Challenge Cream and Butter Association

■ Others Follow Suit

- **1904** Tillimook County Creamery Association (*Oregon*)
- **1907** American Cranberry Exchange (*Massachusetts*)
- **1921** Minnesota Co-op Creamery Association (*Minnesota*)

Cooperatives & The New Deal

■ Rural Electrification Administration

Cooperatives & The New Deal

- Rural Electrification Administration
- **Farm Credit System**

Cooperatives Today

- **21,800** Cooperatives in the United States
- **154 Million** Members
- **\$273 Billion** in Annual Revenues
- **600,000** Employees
- **\$15.5 Billion** Annual Payroll

Cooperatives In The Community

What Are These Companies?

- Wakefern Foods
- TOPCO Associates
- Associated Wholesale Grocers
- Ace Hardware
- Agribank, FCB
- United Western Grocers
- Do-It-Best
- Group Health Cooperative
- Health Partners, Inc.

The Co-op Baker's Dozen

1. CHS Cooperatives
2. Dairy Farmers of America
3. Wakefern Foods
4. TOPCO Associates
5. Land O'Lakes
6. Associated Wholesale Grocers
7. ACE Hardware
8. GROWMARK
9. Agribank, FCB
10. Unified Western
11. Do-it-Best
12. Group Health Co-op
13. Health Partners
80. VHA

Consumer Service Cooperatives

■ Housing



- Three million Americans live in cooperative housing units. While 85 percent of the existing cooperative housing is in the New York metropolitan area, senior and low-income housing cooperatives are springing to life in rural areas.

Consumer Service Cooperatives

■ Health Care



- Cooperatives in health care include business alliances formed to purchase health care for employees and hospital cooperatives that secure laundry services, supplies, insurance and costly medical and computer equipment on a cooperative basis.

Consumer Service Cooperatives

■ Child Care



- Informal and formal child care cooperatives provide quality supervision and instruction for young children. Costs are kept low by parents rotating as the sitters and teachers for their children.

Business Supply Cooperatives

■ Grocery Wholesalers



- Thirty grocery wholesale cooperatives provide identity, brand name products, increased buying power, and access to low-cost services such as trucking and warehousing to 15,000 independent grocery stores.

Business Supply Cooperatives

■ Restaurant Supply



- Franchisees of several well-known restaurant chains: Kentucky Fried Chicken, Taco Bell, Church's Chicken, Dunkin' Donuts -- purchase supplies for their outlets through cooperatives.

Business Supply Cooperatives

■ Hardware Wholesalers



- Wholesale hardware cooperatives are similar to their grocery cousins, providing products and services to 15,000 independent hardware stores.

Farmer Cooperatives

■ Agricultural Marketing



- Some farmer marketing cooperatives limit their activity to negotiating prices and terms of sale for their members with prospective buyers. Others process member production into products that are used as ingredients by food manufacturers or marketed under private labels.
- Sunkist, Sun-Maid, Blue Diamond, SunSweet, Land O'Lakes, Ocean Spray, and Welch's are examples of cooperatives that put their members' product right on the grocery store shelf.

Farmer Cooperatives

■ Farm Supply and Service



- Farm supply cooperatives manufacture and purchase feeds, fertilizers, petroleum products, and other items needed for agricultural production and sell them to their producer-members.
- Other cooperatives provide essential services to farmers, such as cotton ginning, rice drying, and dairy herd improvement information.

Utility Cooperatives

■ Rural Electric Co-ops



- Sixty-five (65) Generation and Transmission cooperatives supply or contract for wholesale electric power for their electricity distribution association owners-members.
- Roughly 1,000 cooperative electricity distribution associations provide electricity to 40 million people in 47 states.
- The “G&T” and distribution cooperative system is a \$60 billion/year business.

Utility Cooperatives

■ Communications Co-ops



- Hundreds of mostly rural communications cooperatives provide traditional telephone service, cable television, broadband access, and wireless local area networking services to millions of Americans.

Financial Cooperatives

■ Credit Unions



- Credit Unions are the largest segment of the cooperative community.
- 84 million people belong to the 9,500 credit unions in the United States, and these associations have over \$625 billion in assets.

Financial Cooperatives

■ Farm Credit System



- The Farm Credit System contains a variety of financial institutions that provide over \$100 billion in long and short-term financing and related services to more than a half million growers, agribusiness and agricultural cooperatives, electric and telephone cooperatives, and rural utility and water systems.
- More than 30 percent of the credit needs of U.S. agriculture are met by Farm Credit institutions.

Financial Cooperatives



- **CoBank**, one part of the Farm Credit System, provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states.

Financial Cooperatives



- **NCB** (*formerly the National Cooperative Bank*) is modeled on CoBank and provides credit and financial services primarily to nonagricultural cooperatives such as housing, healthcare and retailer-owned purchasing cooperatives, and to Employee Stock Ownership Plans.

Financial Cooperatives



National Rural Utilities
Cooperative Finance Corporation

- **CFC** (*the National Rural Utilities Cooperative Finance Corporation*) provides credit and other financial services to its 1,050 electric cooperative owners. CFC is the sole source of financing for more than 200 electric cooperatives and supplements USDA credit programs for the others.

Classifying Cooperatives

Functions Performed

■ Marketing

Functions Performed

- Marketing
- **Purchasing**

Functions Performed

- Marketing
- Purchasing
- **Service**

Geographic Territory Served

- **Local**

Geographic Territory Served

- Local
- **Super Local**

Geographic Territory Served

- Local
- Super Local
- **Regional**

Geographic Territory Served

- Local
- Super Local
- Regional
- **National**

Geographic Territory Served

- Local
- Super Local
- Regional
- National
- **International**

Governance System

- **Centralized - Individual Members**

Governance System

- Centralized - Individual Members
- **Federated - Cooperative Members**

Governance System

- Centralized - Individual Members
- Federated - Cooperative Members
- **Mixed - Individual and Cooperative Members**

Benefits of Cooperation

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- **Access to Quality Supplies and Services at Reasonable Cost**



Benefits of Cooperation

- Access to Quality Supplies and Services at Reasonable Cost
- **Increased Clout in the Marketplace**



Benefits of Cooperation

- Access to Quality Supplies and Services at Reasonable Cost
- Increased Clout in the Marketplace
- **Share in the Earnings**



Benefits of Cooperation

- **Local Economy Enhanced and Protected**

Benefits of Cooperation

- Local Economy Enhanced and Protected
- **Help Solve Industry Problems**

Benefits of Cooperation

- Local Economy Enhanced and Protected
- Help Solve Industry Problems
- **Political Action**

Introduction to Cooperatives

QUESTIONS

NSAC Course on Cooperatives



Introduction to
Cooperatives

END HOUR 1

Enjoy a 10 minute Break

