

# WHAT ARE COOPERATIVES?

USDA, RBS, CIR 11 Chapter 1 -  
What Are Cooperatives?

# A Type of Business Dependent On

- *Who owns the business?*
- *Who controls the business?*
- *Who uses the business?*
- *Who gets the profits?*

# Individually Owned Business

## *One Person*

- Owns
- Controls
- Operates
- Benefits/profits

# Partnership

*Two or more people*

- Own
- Control
- Operate
- Share in risks and profit



# Corporations

- Multiple owners
- Variety of goods and services
- Physical facilities
- State chartered
- Investors
- Profits shared among investors

# Cooperatives Are a Type of Corporation

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- Multiple owners who are user members
- Variety of goods and services
- Physical facilities
- State chartered
- Members are investors
- Owned and controlled by members who use its services

# Cooperatives

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- Are primarily controlled by a board of directors elected by and from members
- Derive equity from member owners
- Operate for the benefit of member owners
- Allocate earnings to members based on use
- Earnings from member business is taxed once
- Have perpetual existence

# The Cooperative Form of Business Is Prevalent

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- *30,000 cooperatives in the United States*
- *Serve 350 million people*
- *There are several types of cooperatives serving many sectors*

# Types of Cooperatives

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- Financial
- Consumer Service
- Business

# Cooperatives Provide

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- Credit
- Transportation
- Facilities
- Recreational Equipment
- Food
- Housing
- Health care
- Child care
- Wholesale goods and supplies
- Electricity
- Telephone and electric services
- Farm production supplies and service
- Farm marketing

# Cooperatives Have Unique Principles

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*User - Owner*

*User - Control*

*User - Benefit*

# User-Owner Principle



*The people who own and finance the cooperative are those who use it.*

# User-Control Principle



*The people who use the  
cooperative are those  
who control the  
cooperative*

# *Members Exercise Control By*

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- Voting at annual and membership meetings
- Electing Board of Directors
- Making decisions on major cooperative issues

# User-Benefit Principle

*The cooperative's sole purpose  
is to provide and distribute  
benefits to members on the  
basis of their use*



# *User-Benefits*

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- Bargaining Power
- Market Access
- Community Strength
- Political Action
- Patronage Refunds
- Reduced Costs
- Quality products and services
- Economic Enhancement
- Competitive Yardstick

# Cooperative Practices

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## *Implement and Facilitate Basic Principles*

- Patronage Refunds - distribute earnings to members based on use
- Limited Return on Equity Capital - members form cooperatives for service, not for a monetary return on investment
- Cooperative Cooperation - joint ventures, MAC's, networks, alliances, working relationships, etc.
- Cooperative Education - promote the cooperative way of doing business and educate members, directors, and employees

# Cooperative Governance System Structure

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**Based on membership structure and essentially defines who the members are and how the cooperative is organized to serve them.**

- Centralized Structure - Individuals are direct members
- Federated Structure- Cooperatives are direct members
- Mixed Structure - Individuals and cooperatives both are direct members

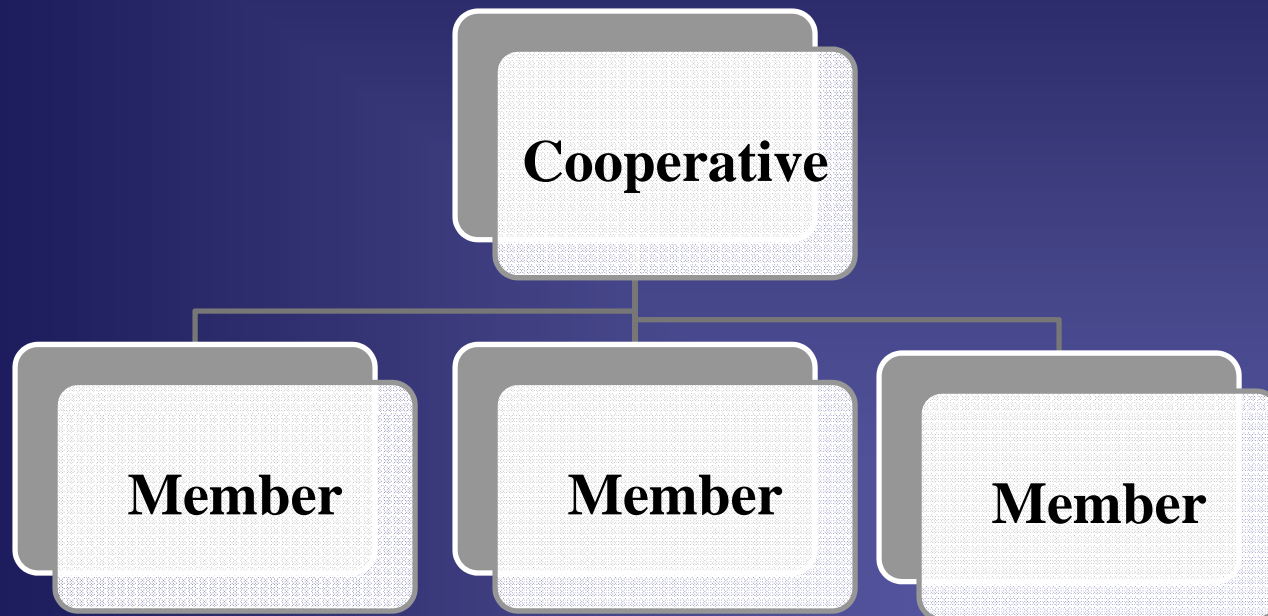
# Geographical Structure (revised)

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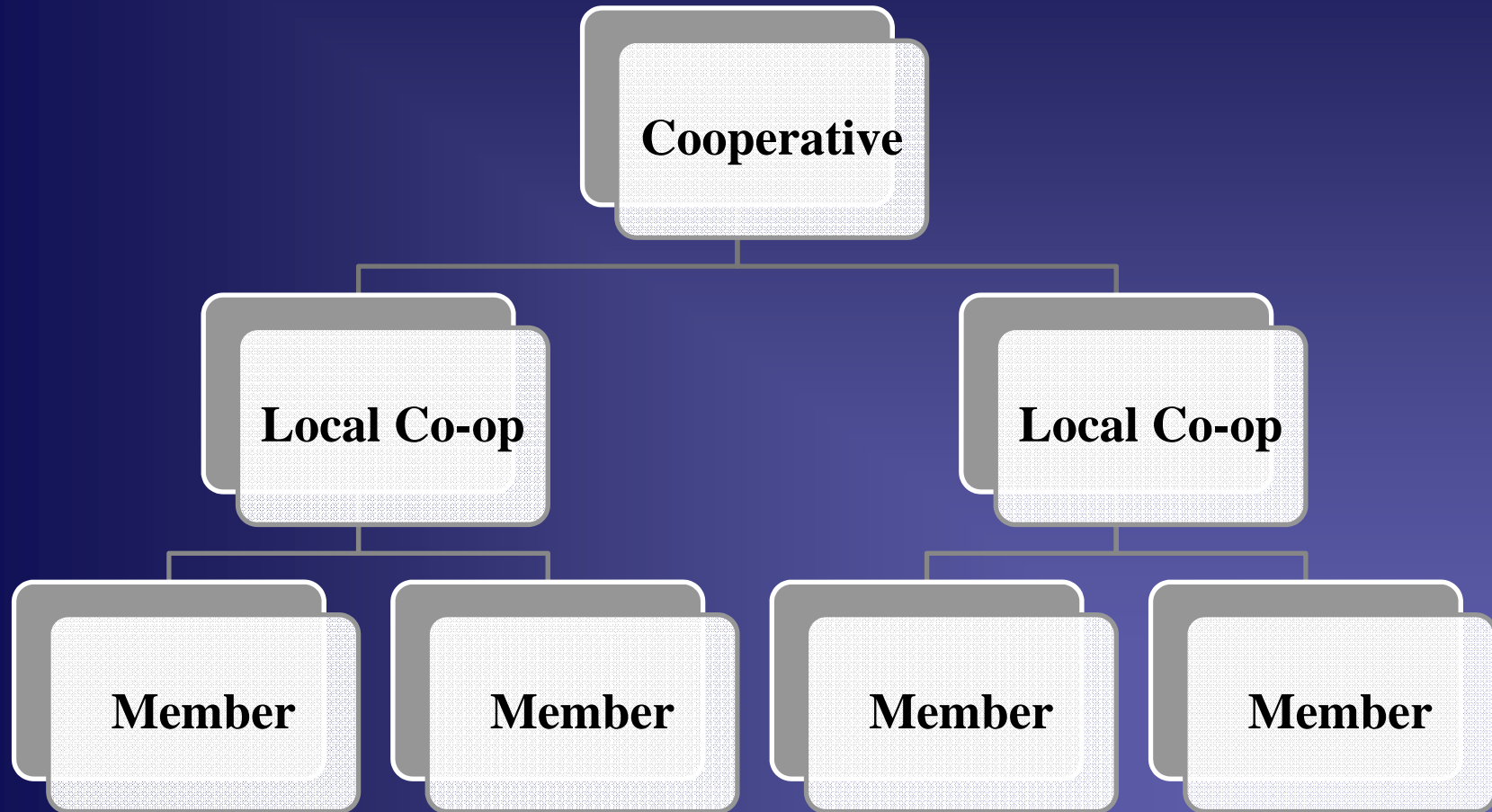
**Geographical characterization defines a cooperative's size and scope of operations in reference to serving members.**

- Local – Centralized co-op covering less than one state or equivalent area if multi-state.
- Super local – Large local centralized co-op with at least 200 employees or \$200 million in sales.
- Regional – Centralized, federated or mixed co-op covering one of more states.
- Interregional – Federated regional co-op owned and controlled by two or more regional co-ops.
- National – Co-op covering all of one country.
- International – Co-op covering two or more countries.

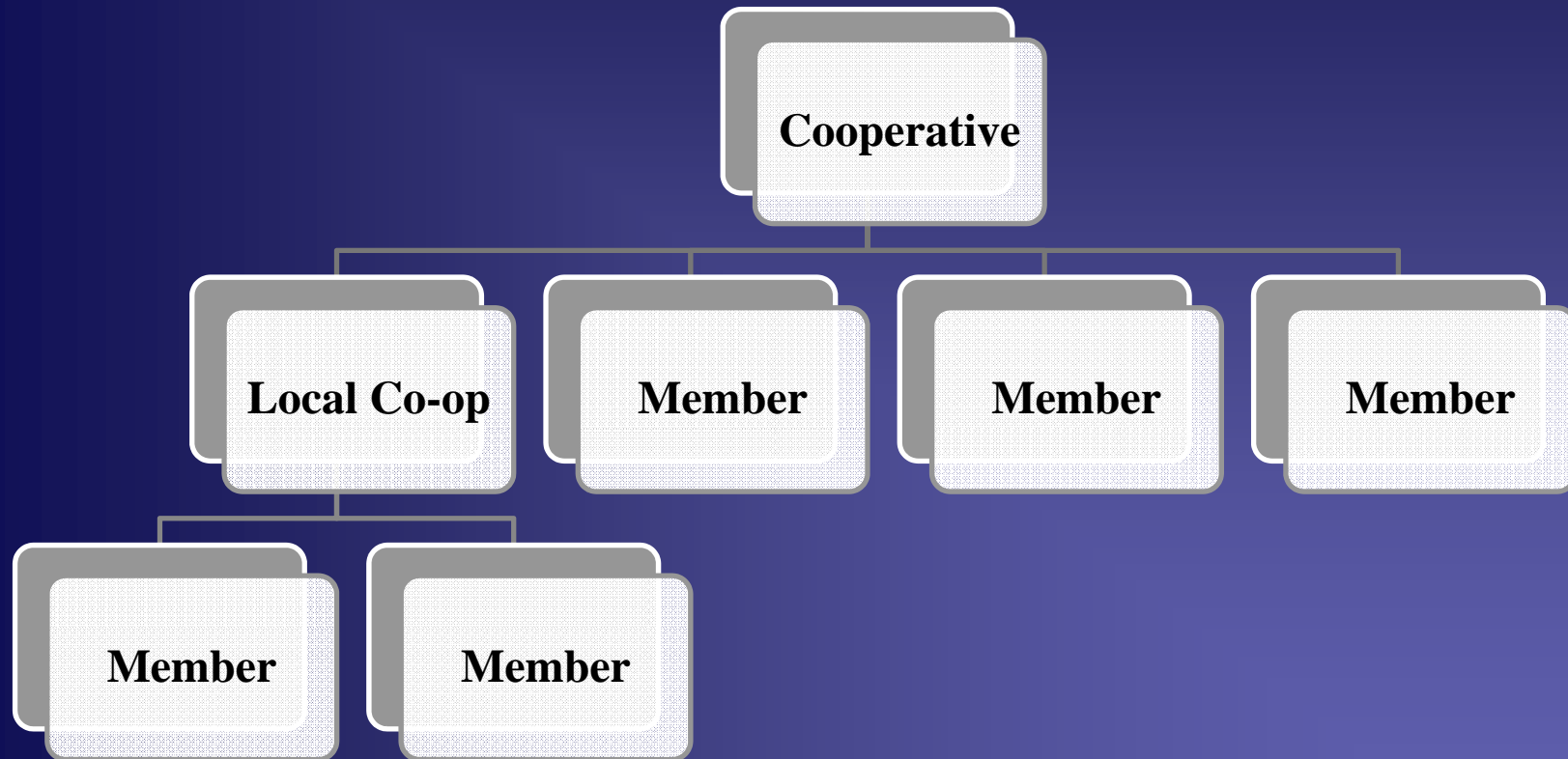
# Centralized Structure



# Federated Structure



# Mixed Structure



# Cooperative Functions

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## *Three Core Functions*

- Marketing - extend control of members' products through processing, distribution, and sale
- Purchasing - providing affordable supplies and goods
- Service - provide needed services

# Marketing Cooperatives

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*Assist members in maximizing returns from goods they produce*

- Handle, process, and sell
- Grade, transport, bargain
- Add value
- Research-new product development

# Marketing Cooperatives

Assist members to maximize the return they receive for the goods they produce!

## Member Products

- Agricultural
- Forestry
- Aquaculture
- Horticulture
- Crafts



## Functions

- Transport
- Process
- Grade
- Add value
- Research
- Distribute
- Bargain
- Sell



## Member Benefits

Extend control of their products and realize additional margins

# Purchasing Cooperatives

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*Allow members to gain access to affordable production supplies and goods*

- Purchase in bulk to reduce costs and increase purchasing power
- Provide direct ownership of refineries, plants, retail facilities, research facilities

# Purchasing Cooperatives

Used by members to gain access to affordable, quality supplies

## Members

- Producers
- Hardware stores
- Independent grocery stores
- Fast food franchises



## Functions

- Refineries
- Plants
- Feed mills
- Warehouse
- Manufacture
- Buy in bulk
- Deliver



## Member Benefits

- Reduced costs
- Volume discounts
- Quality control
- Increased access

# Service Cooperatives

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## *Provide needed services*

- Meet many needs
- Custom application of purchased supplies, transport of product, etc.
- Provide utilities, credit, housing, health care, technology, etc.

# Service Cooperatives

Used by members to gain access to affordable, quality services

## Members

- Producers
- Rural residents
- Urban residents
- Public



## Functions

- Farm applications
  - Credit
  - Electricity
- Communications
  - Insurance
  - Health care
  - Schooling
  - Housing



## Member Benefits

- Access to services
- Affordable services
- Quality
- Increased access

# Participation Roles

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*Cooperatives operate through the roles of principal parties*

- Members
- Directors
- Manager
- Employees



# Organizational Make-Up



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