What’s a co-op?

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- Leadership development
- Technical assistance for persons organizing new cooperatives
- Applied research
- Resource for Cornell Dyson School Cooperative Business Management class
- Build awareness of cooperatives to improve social and economic well being of people and communities
What you will learn

• How is a co-op different from other business structures?
• Why are cooperatives formed
• Types of cooperatives

A ‘co-op’ is formed by people sharing a common need or economic problem that can only be solved by working together.

A ‘coop’ is for chickens.
There are 6 primary business structures

1. Sole proprietorship
2. Partnership
3. Limited Liability Company
4. Corporations, privately held or publicly traded
5. Non-profit organizations
6. Cooperatives
Business structures are defined by the rights of ownership. Who makes decisions?

<table>
<thead>
<tr>
<th>Business structure</th>
<th>Decision maker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole proprietorship</td>
<td>Individual owner of the business</td>
</tr>
<tr>
<td>Partnership</td>
<td>Two or more business owners</td>
</tr>
<tr>
<td>Limited liability company (LLC)</td>
<td>Owners of the LLC</td>
</tr>
<tr>
<td>Publicly traded corporation</td>
<td>Hired management, board of directors</td>
</tr>
<tr>
<td>Non-profit organization</td>
<td>Board of directors</td>
</tr>
</tbody>
</table>
A board of directors make decisions for the co-op on behalf of member-owners.

Cooperatives are owned by the persons called member-owners who use the services provided by the business. These member-owners elect a board of directors from the membership to represent their interests when making decisions.
Democratic control in a co-op

Minimum – one member, one vote
Business structures are defined by the rights of their owners in terms of residual earnings.

- Who gets the profits?
- Who bears the risks?
- If sold, who gets the net proceeds?
Business structures are defined by who has rights to the money

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<th>Business structure</th>
<th>Residual earnings – profits, sale of business</th>
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<td>Owners of the LLC</td>
</tr>
<tr>
<td>Publicly traded corporation</td>
<td>Shareholders of the stock</td>
</tr>
<tr>
<td>Non-profit organization</td>
<td>Transferred to similar organization</td>
</tr>
</tbody>
</table>
Co-ops and residual earnings

- Profits shared through patronage refunds
- Proportionate to use of the co-op
- Equity or ownership investment
- Residuals to member-owners when sold

Co-op profits may be shared with member-owners in proportion to their use or patronage of the business.
Co-ops are big business, global census

- 2.6 million co-ops (1.9 million in Asia)
- Over 1 billion memberships in 145 countries
- 12.6 million employees (not including China)
- $20 trillion in assets, $3 trillion in annual revenue
- 1 in every 6 people (17% in the world has a membership or is a client of a cooperative)

Adding all global cooperative business activity together would result in the 6th largest economy in the world!

Dave Grace and Associates, Measuring the Size and Scope of the Cooperative Economy: Results of the 2014 Global Census on Co-operatives
United States cooperatives

- Research from the University of Wisconsin identified over 29,000 co-ops doing business in the U.S.

United States Department of Agriculture
Rural Development, Cooperative Services

- Cooperative development centers supported through the USDA assist persons in organizing new cooperatives

### Prevalence by industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number</th>
<th>Percent revenue within co-op sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>48</td>
<td>57%</td>
</tr>
<tr>
<td>Grocery</td>
<td>7</td>
<td>12%</td>
</tr>
<tr>
<td>Finance</td>
<td>17</td>
<td>11%</td>
</tr>
<tr>
<td>Energy</td>
<td>22</td>
<td>9%</td>
</tr>
<tr>
<td>Hardware</td>
<td>3</td>
<td>7%</td>
</tr>
<tr>
<td>Healthcare Pharmacy</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Recreation</td>
<td>1</td>
<td>1%</td>
</tr>
</tbody>
</table>

Top 100 U. S. Co-ops in 2021 from the National Cooperative Bank

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Distribution of Cooperatives by Sector
Co-ops are big business and yet largely invisible, compared to publicly traded corporations

GROWMARK FS

• Started as need for reliable fuel supply at competitive price
• Putting farmer needs at forefront of decisions to bring innovative products to market
• Grew to supply fertilizer, crop protectants, seeds at competitive prices
• Access to terminal network for grain transport
Co-ops provide needed services that might not be otherwise available.

Otsego Electric Cooperative, Inc.

- Started as a need for power in rural areas
- Rural Electrification Act of 1936 signed by President Franklin D. Roosevelt provides federal loans to install electrical distribution systems in rural areas of the United States
- Working to meet broadband needs of current members

900 electric co-ops serving 42 million members throughout the U.S.
Co-ops provide capital for farmers, ranchers, and rural communities

FARM CREDIT SYSTEM

- Farm Credit is a nationwide network of independent, lending institutions in all 50 states and Puerto Rico
- Owned by farmers, ranchers, farmer-owned cooperatives, rural utilities, and rural homeowners
- Means for member-owners to access short & long-term credit in up and down price cycles in rural America when other commercial lenders are more risk-adverse
- Lead by board of directors elected by peers; oversight provided by the Farm Credit Administration
Credit unions are an alternative to commercial banks

- Started in the U.S. in the early 1900s by persons pooling their money together to loan to others
- Credit unions help local communities through a financial crisis; when banks pull back lending to small businesses, credit unions step in
- More than 117 million Americans are credit union members; they remain small, holding 10% of transaction account balances & 2% of domestic financial assets

https://ascu.org/category/credit-unions-vs-banks/
Co-ops were formed by persons for risk protection from fire, accidents, and personal injury at affordable rates.

- The Philadelphia Contributionship - 1752
- Co-op “fever” - 1920s
- Mutuals are “cooperative-like”
Co-ops are a means to achieve economies of scale and competitive advantage through “pooling”.

[Branding logos for ACE, Carpet One, Do it Best, and True Value]
In conclusion

• Cooperatives are formed to meet the needs of their member owners
• They are democratically controlled; lead by a board of directors elected from the membership
• Profits are shared in proportion to the member’s use of the business
For more information

Cornell University
Cooperative Enterprise Program

http://cooperatives.dyson.cornell.edu/