

What's a co-op?

Bobbie Severson, Director
Cornell University
Cooperative Enterprise Program
Warren Hall
Ithaca, NY

Cornell **CALS**
College of Agriculture and Life Sciences

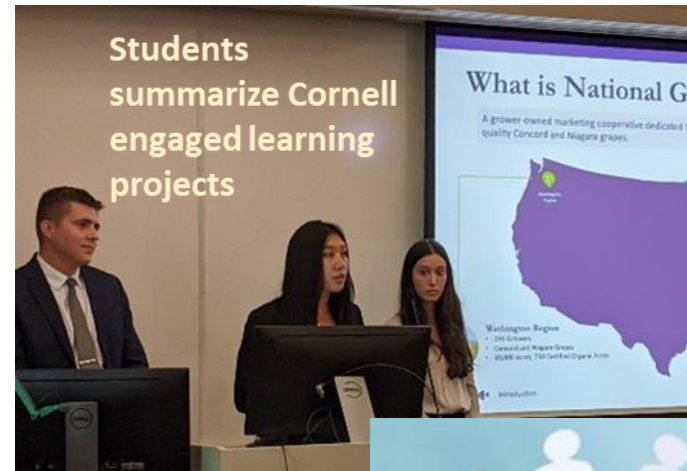


Dyson
Cornell
SC Johnson College of Business



Cornell University Cooperative Enterprise Program

- 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

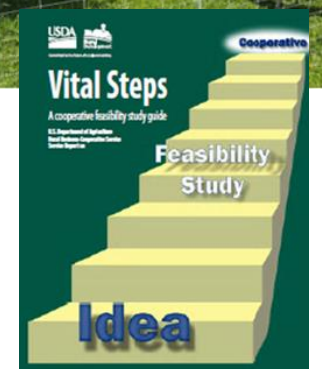


Economic Contribution of Agricultural Cooperatives in NYS (2019)

Output (\$M)	Direct Effect	Indirect Effect	Induced Effect	Total Effect	Contribution Multiplier
Rural Electric	29.2	15.2	9.3	53.7	1.84
Farm Credit	183.1	43.2	48.4	274.7	1.50
Supply and Service	39.9	33.2	21.4	94.5	2.37
Marketing	4,160.6	3,845.1	857.6	8,863.3	2.13
Total	4,412.7	3,936.7	936.7	9,286.1	2.10

Optimal Offer (maximize aggregate utility)

Attribute	Attribute Level	Relative Importance
Gross handler pay price	\$20.00	0.48
Handler business structure	Farmer-owned cooperative	0.22
Quality premium	≤200 = 30¢, ≤150 = 40¢, ≤100 = 50¢	0.14
Volume premium	No volume premium	0.11
Hauling cost structure	Region-specific rate	0.06
Total		1.00



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.



[This Photo](#) by Unknown Author is licensed under [CC BY-NC-ND](#)

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



A board of directors make decisions for the co-op on behalf of member-owners.

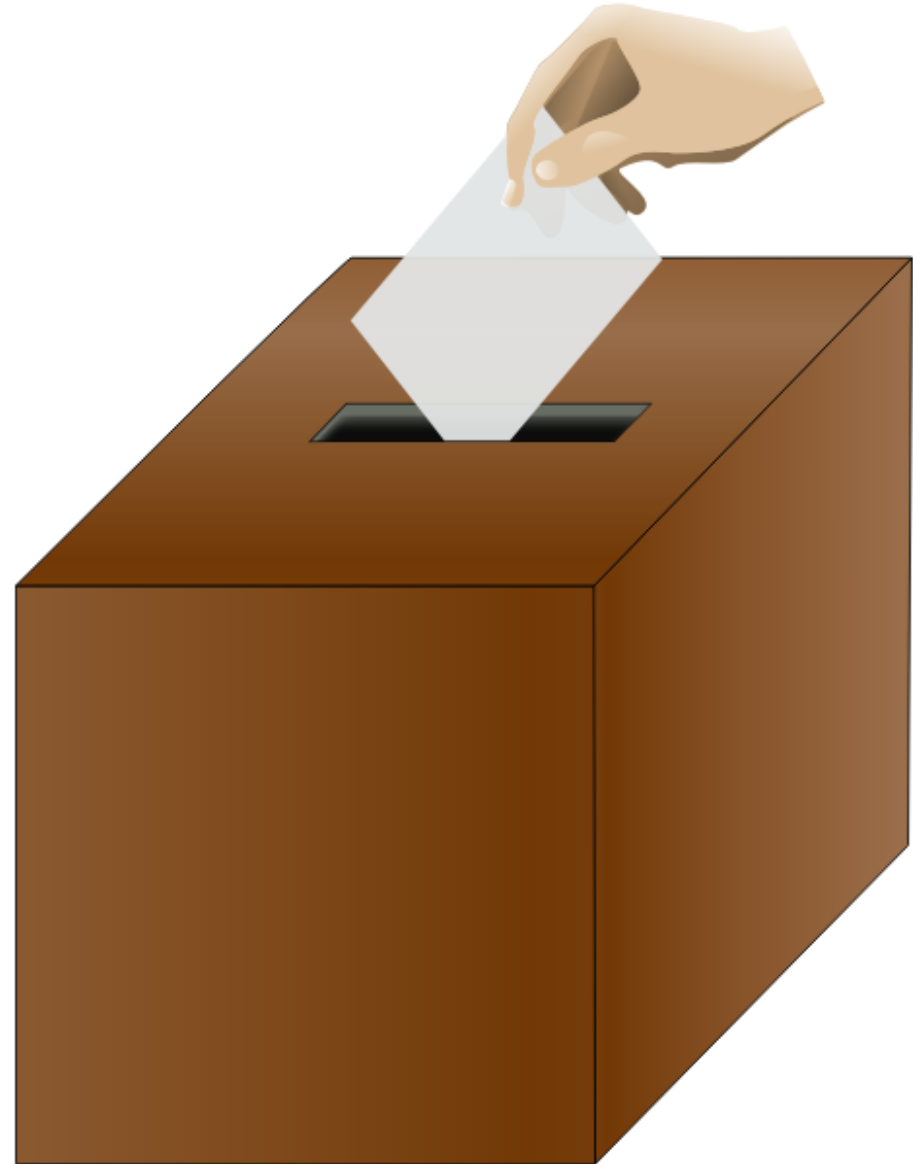
Cooperatives are owned by the persons called member-owners who use the services provided by the business.

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

Business structure	Residual earnings – profits, sale of business
Sole proprietorship	Individual owner of the business
Partnership	Two or more business owners
Limited liability company (LLC)	Owners of the LLC
Publicly traded corporation	Shareholders of the stock
Non-profit organization	Transferred to similar organization



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



[This Photo](#) by Unknown Author is licensed under [CC BY-NC](#)

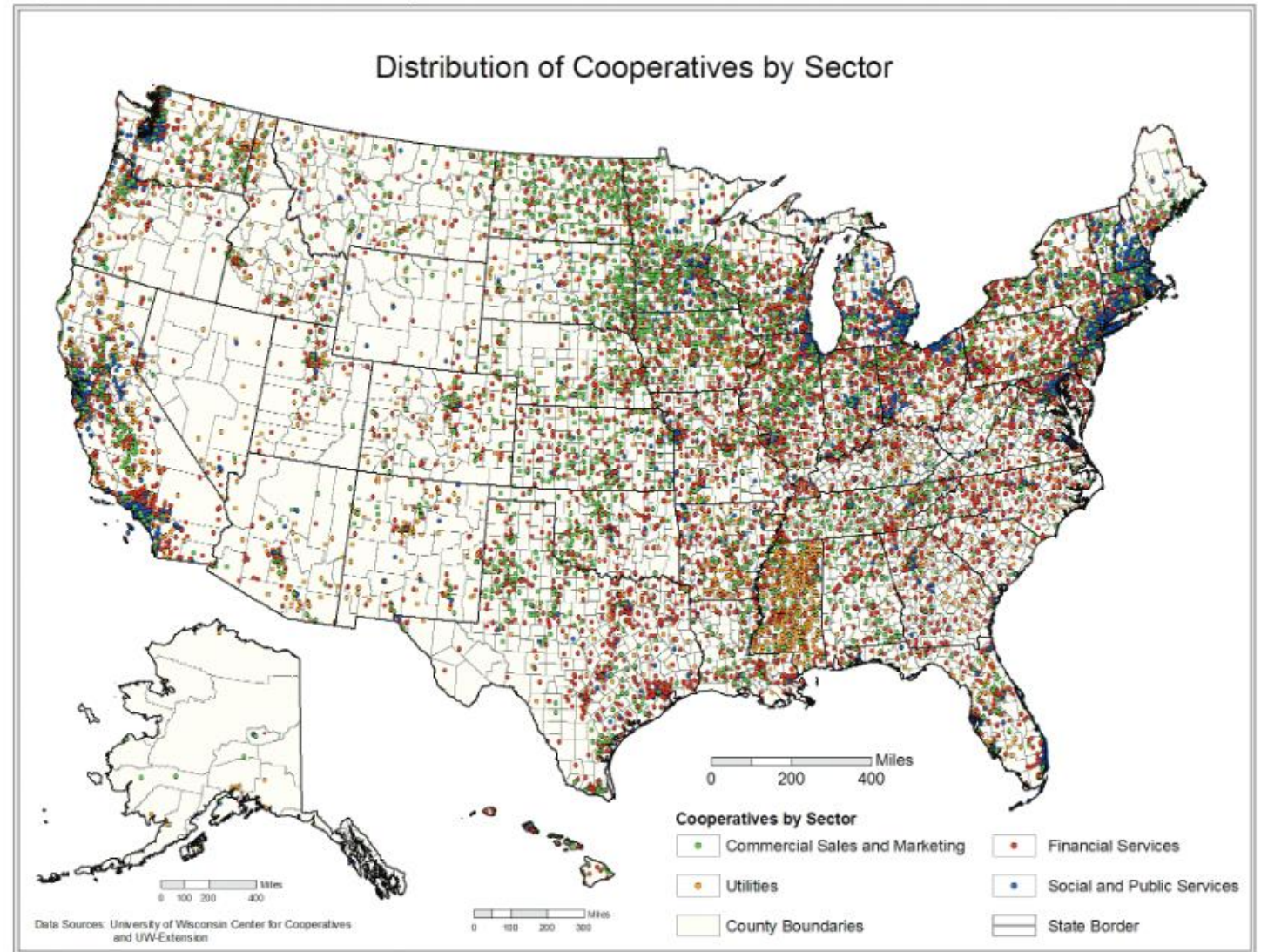
Dave Grace and Associates, Measuring the Size and Scope of the Cooperative Economy: Results of the 2014 Global Census on Co-operatives



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

United States cooperatives

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

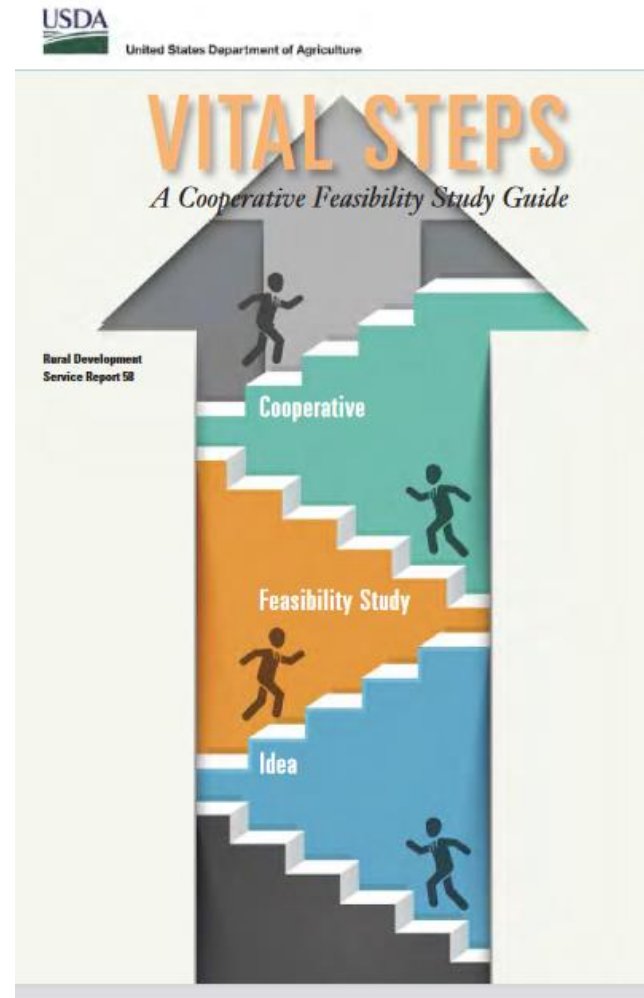


Research on the Economic Impact of Cooperatives, University of Wisconsin, Center for Cooperatives, 2009.

United States Department of Agriculture Rural Development, Cooperative Services

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

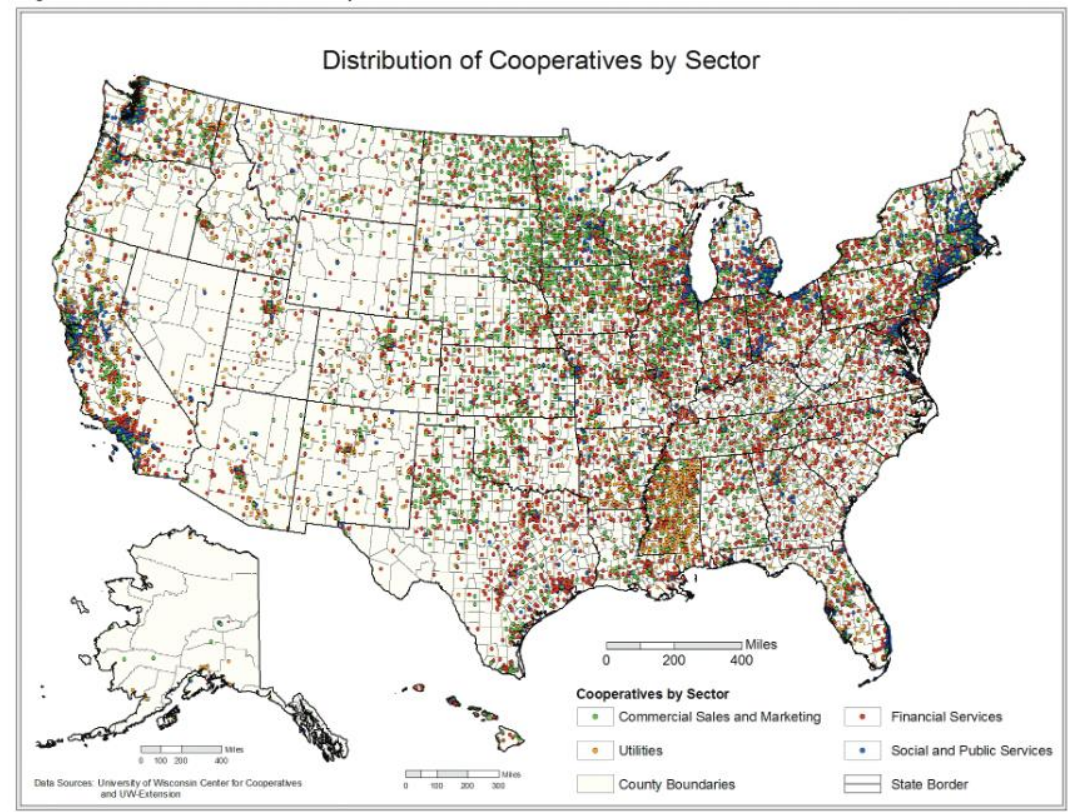
 Rural Development
U.S. DEPARTMENT OF AGRICULTURE



Top 100 U. S. Co-ops in 2021

from the National Cooperative Bank

Prevalence by industry	Number	Percent revenue within co-op sector
Agriculture	48	57%
Grocery	7	12%
Finance	17	11%
Energy	22	9%
Hardware	3	7%
Healthcare	1	4%
Pharmacy	1	
Recreation	1	1%



National Cooperative Bank – NCB Top 100, 2022

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

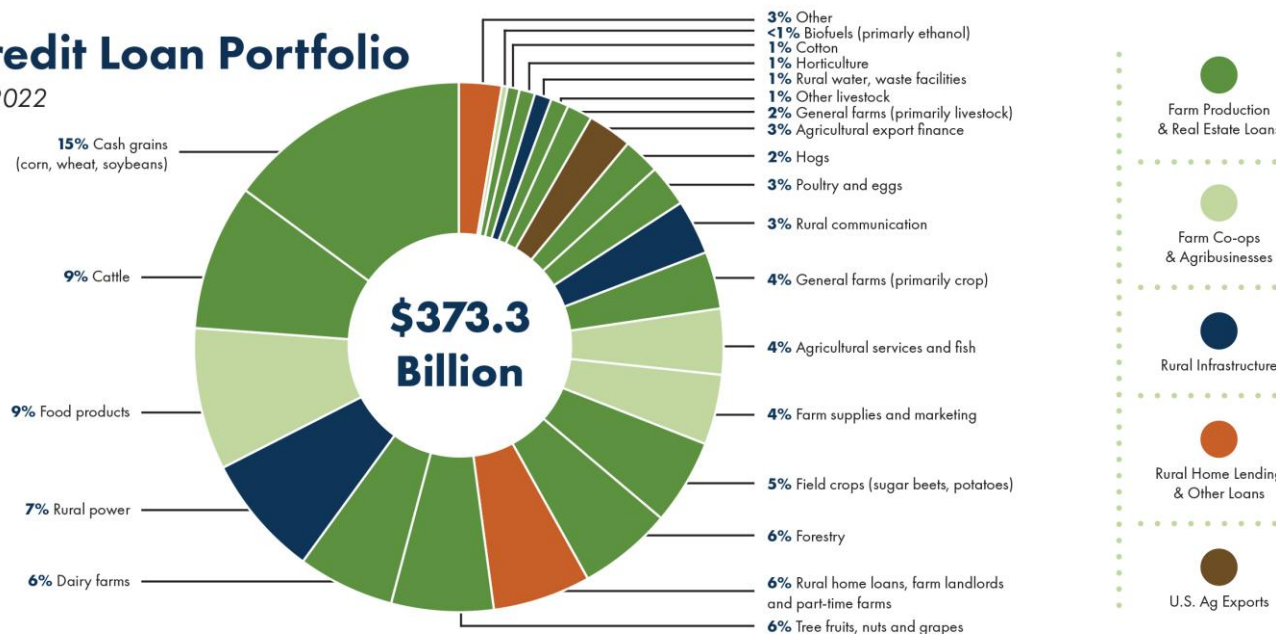
FARM CREDIT SYSTEM

- 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-averse
- Lead by board of directors elected by peers; oversight provided by the Farm Credit Administration



Farm Credit Loan Portfolio

As of Dec. 31, 2022



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”



The Philadelphia Contributionship



Nationwide®



Liberty Mutual.
INSURANCE



Co-ops are a means to achieve economies of scale and competitive advantage through “pooling”.



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/>

Cornell **CALS**
College of Agriculture and Life Sciences



Dyson
Cornell
SC Johnson College of Business

