

STEPS TO STARTING A MARKETING CO-OP

SECOND EDITION

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INTRODUCTION

Steps to Starting a Marketing Co-op is written for people interested in starting a cooperative to jointly market products or services produced by members. It presents an overview of the procedures involved in the co-op organizing process, start-up activities, and examples. Specific topics are elaborated on in "features," including descriptions of successful marketing co-ops, sample documents, and other information. References containing more detailed information are presented after each step. Full citations appear in the annotated bibliography.

Because forming a co-op involves complex legal and accounting issues, groups organizing a co-op should seek the assistance of attorneys and other qualified technical consultants who specialize in the cooperative form of business. A list of cooperative resource organizations is provided on page 39.

What is a Co-op?

A cooperative is an enterprise voluntarily owned and controlled by the people who use it—its members. A cooperative is a democratically controlled organization that exists to meet the *mutual needs* of its member-owners.

As a business, a co-op is subject to the same needs and demands of any business: sufficient financing, careful market analysis, strategic and comprehensive planning, and well-trained and competent personnel. Co-ops are vulnerable to the same market and economic forces that face all businesses. In important

ways, co-ops are also unique.

The most distinct feature of a co-op is its ownership structure. The co-op's members are the business owners—this key feature influences many aspects of how a co-op is organized and operated. Members are the foundation upon which a co-op is built. Without a strong base of members who will work to ensure its success, any co-op will fail.

Co-op Principles

As the cooperative form of business developed over the past 150 years, a set of principles has evolved. These principles, which define features unique to cooperatives and characteristics important to co-op success, were revised in 1996 by the International Cooperative Alliance. The principles described below appear in abbreviated form.

1. Voluntary and open membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2. Democratic member control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions.

3. Member economic participation

Members contribute equitably to, and democratically control, the capital of their cooperative.

Chapter One

4. Autonomy and independence

Cooperatives are autonomous, self-help organizations controlled by their members.

5. Education, training, and information

Cooperatives keep their members informed and provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperative.

6. Cooperation among cooperatives

Cooperatives serve their members most effectively and strengthen all types of cooperative businesses by cooperating with one another.

7. Concern for community

While focusing on members' needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

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What is a Marketing Co-op?

A marketing co-op is a type of business structure used to improve or better facilitate the sale of products or services produced by its members. By marketing together through the co-op, members are able to get a better price for their products and to have access to larger markets than they would on their own. Marketing co-ops may also be involved in processing, assembling, packaging, or other methods that add value to the product.

Marketing co-ops are organized to sell arts and crafts, finished textiles, wild-crafted forest products (such as mushrooms, pine cones, berries, etc.), finished wood products, or other goods and services. Agricultural marketing co-ops sell grains, fruit, vegetables, nuts, organic foods, cotton, or other commodities grown by their members. A marketing co-op allows its members to focus their efforts on producing goods or services rather than on finding buyers.

The Purposes of a Marketing Co-op

Every marketing co-op has unique circumstances that lead to distinctive features, but all successful marketing co-ops share one feature—they are all founded on a clear purpose and focus on efficiently meeting a shared need. Marketing co-ops are generally formed by producers for one or more of the following reasons:

To obtain a **higher price** or to ensure a reasonable price for members' products.

When peach growers jointly market their peaches through the co-op they are in a better position to bargain with handlers to ensure adequate and consistent prices.

To reach a broader market.

When craftspeople in a rural Appalachian co-op jointly produce a catalog promoting their work, they can reach a larger market than they would through small roadside crafts stores.

To **process or package** products to increase their value as well as profits.

When wheat growers jointly own a mill (to produce and bag flour) or a pasta production

facility, they obtain higher profit margins by providing a "value-added" product.

To gain **more control** over the way products or services are distributed and marketed.

When performing artists form their own co-op, they gain control over the content of their performances and ensure that they are marketed in the way they wish.

An added bonus...

To obtain supplies or services.

Although not the purpose of a marketing co-op, in some cases members are able to save money by bulk or quantity purchasing of items such as feed, art materials, packaging supplies, equipment, or office supplies. Group purchasing of services like bookkeeping, secretarial support, or training can reduce individual costs and increase member profit.

How a Cooperative Differs from an Investor-owned Firm

Stockholders in an investor-owned firm are similar to the members of a cooperative in that they are co-owners—stockholders own stock and co-op members own shares of the business. But co-ops differ from investor-owned firms in very distinct ways. In most circumstances, co-ops are democratically controlled on the basis of one vote per member, while voting among stockholders is weighted by the amount of stock owned.

In a co-op, applicable year-end profits of the cooperative can be distributed through "patronage rebates"—dividends based on the amount of business performed through the co-op (as opposed to the amount of stock owned).

Cooperative corporations are not established to accrue profit for the corporation but as a tool to allow members to achieve mutual goals. For this reason, the corporate codes in states that have specific statutes for cooperative corporations often define cooperatives as nonprofit corporations. Under most circumstances, cooperatives do not qualify for federal tax-exempt status because they are formed to meet member, rather than public or charitable, needs.

introduction

FEATURE: THE NORTHWEST GALLERY OF FINE WOODWORKING

A Woodworker's Marketing Co-op

In the late 1970s, woodworkers in Seattle struggled to make a living. There were few places where they could display or sell their works. The time they spent taking their items to fairs or to stores took them away from their craftwork. Their sales profits were minimal because most stores or galleries took 50 percent or more of the sale prices.

The problems were discussed at a meeting of their local woodworking guild. After much discussion it was apparent that a cooperative provided the perfect solution—each member would be an equal co-owner of the company; the co-op could rent a space and pay the expenses of operating it. Members contributed time and money to prepare the first store and took turns working in shifts after it opened. They incorporated and named the co-op The Northwest Gallery of Fine Woodworking.

Today, the co-op has two stores, thirty members, and ten full-time staff members. The gallery specializes in contemporary fine furniture. Each piece is an original work with unique elements.

Nonmember furniture, art pieces, and gift items are admitted if they meet quality standards, differ from members' works, or are of exceptionally high quality. Nonmembers pay a 40 to 45 percent commission to the co-op. These sales can contribute up to 30 percent of total sales.

To join the co-op, applicants must pass judgement by the jury committee, be approved by the Membership Committee and Board of Directors, then be approved by a vote of all members. Members are required to purchase \$100 in co-op stock. In addition, members each pay a \$500 initiation fee and \$50 per month for three years to help cover operating costs. The co-op also collects a 32 percent commission on members' sales through the co-op.

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Members are no longer required to work in the gallery, although all are required to attend meetings each year and contribute to the co-op in some way, such as by serving on a committee or on the board, being part of a jury to screen prospective members' work, or related projects.

Board members are democratically elected to two-year terms by co-op members at an annual meeting. Three board positions are up for election one year, the remaining two in the next year. The board is responsible for overseeing the co-op's operations, hiring management, and setting policy to guide management actions. In addition, the co-op's members participate in annual long-range planning sessions and serve on special committees for the co-op—the Jury Committee, which screens and reviews nonmembers' works, the Membership Committee, which works with interested potential members, and special committees, as needed.

Members accrue patronage dividends according to their percentage of member sales. Nonmember sales profit is kept for display equipment, expansion, and associated expenses. Sales, and therefore patronage, can vary widely, but can be as high as \$8,000 to \$10,000. During years of expansion the board has decided to defer all but 20 percent of patronage until the following year to help cover expansion costs.

Introduction



STEPS TO STARTING A MARKETING CO-OP

The catalyst for forming a new co-op is a shared recognition that a group approach is the best means of meeting mutual needs. The co-op should begin with a clear mission, which may include providing members with better prices or access to a wider market, making products ready for a market, gaining the ability to deliver a quality product on a timely basis, or having better control over the way their products are marketed or distributed.

As with any new business, starting a co-op will involve thorough and careful business planning. Responsibility for starting a marketing co-op and seeing it through rests mostly with a leadership group. That group will serve as the spark to initiate and keep the organizing process on track, and help shape it through the start-up phase. Careful planning, thorough work, and patience will result in a strong foundation and increase the likelihood of co-op success.

Summary of Organizing Steps

The steps below are discussed in more detail in the pages that follow. Each step represents a point of evaluation for whether to proceed with the co-op.

Step 1. Collect information, clarify needs, and assemble a core group.

- Step 2. Potential members discuss needs and vision. Select steering committee to coordinate organizing and business research.
- Step 3. Conduct economic feasibility study; share findings with potential members. Obtain a commitment to proceed.
- Step 4. Develop a membership agreement; initiate funding and membership commitments.

- Step 5. Prepare and review the business plan.
- Step 6. Draft bylaws and articles; secure membership and financial commitments.
- Step 7. Hold the co-op's first, or charter, meeting; elect board of directors; finalize legal documents.
- Step 8. Implement the business plan. Prepare for business start-up.
- Step 9. Start operations. Follow the business plan.

Collect information, clarify needs, and assemble a core group.

PURPOSE

To collect basic information about marketing cooperatives and marketing identified products or services. To assemble a leadership group that is interested in a new co-op and willing to work together on researching its feasibility.

GUIDELINES

The organizing group should consist of potential member-owners of the cooperative. The number of people who can participate most effectively is five to fifteen. One or two members would be inadequate because of the amount of work to be accomplished, and more than fifteen could make the initial group unwieldy and unproductive. The organizing group should be prepared to devote substantial time to complete necessary research, attend regularly scheduled meetings (weekly, biweekly, or monthly—depending on development timeline), and participate in committee work.

Collect materials, facts, and data.

- Collect information about the kind of business you are interested in, including the co-ops' potential competition.
- Gather information about how marketing co-ops operate and review the legal requirements. (If a product is subject to a fluctuating or volatile market like some agricultural products, learn about market pools—see the *Glossary*, p. 38.)

- Investigate requirements involved in the business, such as special laws or regulations.
- Examine and analyze market alternatives for your members, considering benefits as well as potential obstacles and problems.
- Identify resources that may be available to your group—including organizations as well as individuals who can provide cooperative development assistance.
- Begin collecting information about financial resources available to the group.

Clearly identify the mutual needs that a co-op could address.

- Research the current market and marketing options for potential members. How do they currently sell their products? Investigate whether there are any likely changes to the options, such as an impending plant closure.
- Determine potential members' areas of satisfaction and disappointment with current options. Identify the biggest obstacles they currently face in marketing.
- Utilize information already gathered to determine the needs a co-op can address; be realistic about the needs that a co-op probably cannot address.

Identify people who might share an interest in the co-op.

- Share information about developing a co-op and assess interest.
- Identify and discuss mutual needs and how a co-op could address them.

KEY DECISIONS:

DOES THE GROUP SHARE A MUTUAL NEED AND A VIABLE BUSINESS IDEA? IS A CO-OP THE BEST WAY TO ADDRESS THEM?

For more detailed information: (for the complete citation, see the *Bibliography*)

Baker and Nakazawa: Organizing for Business as a Cooperative National Cooperative Bank: How to Organize a Cooperative

Schaars: Cooperatives: Principles and Practices

U.S. Department of Agriculture: How to Start a Cooperative

U.S. Department of Agriculture: How to Start a Cooperative (Video)

Steps to Starting a

Marketing (o-op

FEATURE: BLUE DIAMOND GROWERS

A Grower's Marketing Co-op

Blue Diamond Growers, based in Sacramento, California, is a marketing co-op for almond growers. Today, this 85-year-old co-op annually processes nearly one-third of the world's crop of almonds. The co-op markets to all 50 states and more than 90 countries. As a result, almonds are California's largest food export and the sixth largest U.S. food export. But, like many co-ops, Blue Diamond started small.

At the turn of the century, growers sold their crops to independent dealers, negotiating individual prices. Dissatisfied with price-cutting by these independent buyers, growers conceived of the idea of one statewide organization. In 1910, they formed the California Almond Growers Exchange. "We believe we can do our own business better than another can do it for us," wrote J.P. Dargitz, the co-op's first manager. "We have come together with no slate made up, seeking no position or place of preferment, but with a sincere desire to put the grower in control of the situation which is rightly his." When it began operations, the co-op had 230 grower-members.

By 1913, the co-op's membership had grown to 490 growers and handled about 60 percent of the state's almond crop. In 1914, the co-op introduced its "Blue Diamond" brand and logo and built its first shelling plant a year later. This facility had the world's first mechanical shell cracker, which allowed the sale of almond meats for the first time in history. By 1923, the co-op's membership had grown to 3,000.

In 1925, the co-op introduced it first quality-control program—based on a grading system. "The present method of handling the crop, without grading standards, always results in unfair return to the member who produces first-quality nuts" wrote the co-op's president. This system has been expanded throughout the years and remains one of the co-op's hallmarks. By assuring buyers of consistent quality nuts and paying growers based on the quality of their crop, the co-op has built a world-renowned reputation for its products on behalf of its members.

Today, the co-op has almost 5,000 grower-members and thousands of employees. A century ago, California produced less than 3 percent of the world's almond crop and only 25 percent of the almonds consumed in the United States. In the 1990s, California produced over 70 percent of the world's almonds and virtually 100 percent of the almonds consumed in America. For its almond grower-members, Blue Diamond continues to find new ways to market almonds.

Steps to Starting a Marketing (G-op

Potential members discuss needs and vision. Select steering committee to coordinate organizing and business research.

Steps to Starting a Marketing Co-op

PURPOSE

To assess whether there is enough interest in a co-op to justify further research and planning. Elect a steering committee to collect information and prepare detailed plans for organizing the new co-op.

GUIDELINES

Hold an informational meeting of people who may be interested in a co-op

- Plan for an effective meeting (see p. 13).
- Present research findings. Focus the discussion around the identified common needs.
- Allow plenty of discussion time so people can ask questions and express their views. Be realistic about what the co-op can and cannot do—especially in its early stages.
- Vote on whether to proceed.
- Funds are necessary for initial research and other organizing costs. Investing personal money or helping with fundraising are excellent ways to test commitment to the co-op. The group may decide to collect a specified amount from potential members.

Handling Funds

Money should be deposited in a special bank account, placed in escrow, or managed in a manner that assures members of security and fiscal responsibility. Money may be collected from potential members (applied to membership fees), earned through fundraising activities, or procured through development grants or loans.

Make a plan for how unused development funds will be used if the co-op isn't formed. State laws may dictate restrictions but options may include donation to a specified charity or nonprofit organization or redistribution to specific contributors. In the case of fundraising, the former may be the most prudent use of the funds.

Elect a Steering Committee.

The steering committee is responsible for carrying the idea for a new co-op throughout development or until a board of directors is elected. If the group is small or consensus decision making is utilized, all members function as the steering committee. The steering committee coordinates and oversees co-op development until a board of directors is elected. The committee may conduct the research itself, coordinate and oversee the work of others involved in the organizing process, or it may serve as a liaison between the members and outside consultants. The steering committee is responsible for:

- surveying potential members;
- collecting market and financial information;
- conducting a feasibility study;
- keeping potential members informed of the group's progress, and obtaining input from potential members;
- coordinating organizing meetings;
- overseeing the preparation of a thorough business plan.

KEY DECISION:

IS THERE SUFFICIENT INTEREST IN AND COMMITMENT TO STARTING A CO-OP?

For more detailed information: (for the complete citation, see the *Bibliography*) Gray and Lang: *Starting a Cooperative for Hardwoods and Special Forest Products* U.S. Department of Agriculture: *The Cooperative Approach to Crafts*

FEATURE: GUIDELINES FOR SUCCESSFUL MEETING

Some Components of Good Meetings

- Good facilitation
- Commonly understood goals
- High level of participation

Be Prepared

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- 1. Select a time and location convenient for most people.
- 2. If additional co-op members need to be recruited, publicize the meeting. Send press releases to your local media announcing your meeting and specify a contact person. Encourage word-of-mouth promotion. Post notices at strategic locations.
- Clearly define the goals of the meeting and structure it accordingly. Begin the meeting with the most important items.
- 4. Arrange for a facilitator and note taker in advance, and specify what should be included in the minutes (see Keep Minutes, below). Groups meeting regularly may consider rotating facilitation to give more people a chance to develop these skills.
- Prepare a written agenda and post or distribute it (ahead of time if possible). Distribute
 a handout that includes the names and phone numbers of people to call for answers to
 questions.
- It is best to limit meetings to 2 hours, but make sure that the meeting goals and agenda items can be met in the allotted time.

Sample agenda: (for an informational meeting)

- 7:00 p.m. Introductions
- 7:15 p.m. Background and basic report: what a co-op is, how a marketing co-op works, and how it can address mutual needs.
- 7:30 p.m. Discussion and decision making:
 - What are our mutual marketing needs and related interests?
 - What products or services do we all produce that could be jointly marketed?
 - Does the concept of a marketing co-op make sense?
 - Present preliminary objectives—discuss and modify.
 - Vote: Should we continue to research the idea of starting a marketing co-op?
 - If so, divide organizing responsibilities or elect a steering committee.
 - Set the next meeting's date and time.
- 9:00 p.m. Adjourn (on time).

Keep Minutes

Minutes record what happened at the meeting, including:

- meeting date, location, and the names of everyone in attendance;
- the statement and source of a proposed resolution presented for vote;
- who seconded the resolution;
- note if there was a lot of discussion on a particular subject and briefly summarize it;
- the vote total—if consensus is used, note who dissented.

Utilize Optimal Facilitation Techniques

- 1. Keep the facilitator role neutral
- The facilitator's role is to ensure that the group accomplishes the meeting goals in a democratic manner.
- A facilitator should leave the facilitator role to offer an opinion by saying something like, "Stepping outside my role of facilitator, I think..."
- If the facilitator wants to support a particular position, he or she should turn the role over to another volunteer until discussion ends on that agenda item.

Steps to Starting a Marketing Co-op

2. Keep the meeting moving, on track, and on time

Call the meeting to order on time. Review the agenda and meeting goals. If appropriate, ask participants to introduce themselves.

If this is the first meeting, or a member-recruitment meeting, distribute a sheet and request that participants record their name, telephone number, and other contact information.

Introduce each agenda item and call on those making presentations.

Make sure that discussion does not get stuck on an item. If a discussion wanders off the subject, remind the group of the agenda item being discussed and the objective of the discussion. If the group lacks sufficient information, cut off the discussion and clarify the information needed for the group to make a decision at a subsequent meeting.

Conduct needed voting. Before a vote, clearly state the motion or proposal. If the outcome is close, ask someone to verify the vote by re-counting hands or ballots. If consensus is used and there are few dissenters, find points of agreement and work to

redefine the motion.

Conclude the meeting on time and on a note of achievement. Remind participants of the actions taken and decisions made. Ask participants to evaluate the meeting by stating what went well and what could be improved to promote more productive meetings. Close by identifying follow-up actions and announcing the next meeting date, time, and location.

3. Encourage meaningful discussion

Ask people to speak for themselves and to be specific. Do not allow statements like, "Some people seem to feel . . . ," or "What he or she is trying to say is "

Keep the discussion on the topic, but encourage people to express their opinions.

Deal with differences of opinion. When handled forthrightly, differences of opinion can yield creative solutions.

4. Help everyone to participate

Make sure everyone has an opportunity to speak. Do not let one or two people monopolize the discussion. Draw out those who tend to be quiet.

Encourage open discussion that allows for disagreement on issues, but do not allow

participants to behave rudely.

If the agenda is taking longer than anticipated, decide as a group whether to extend the meeting or to move some agenda items to the next meeting.

5. Dealing with disruptive behavior

A. Prevention techniques

Get general agreement on the agenda before the meeting.

 Use group input to set ground rules at the beginning of the meeting; for example: be brief; allow everyone to participate; do not interrupt. Restate the ground rules at the beginning of each meeting.

• If certain people continually cause problems, encourage the other participants to

point out their offensive behavior.

B. What to do when problems occur

 When a person's comments are off track, repeat the goals of the meeting ("That is an interesting point, but we are focusing on

• If someone is dominating the discussion, explain the importance of group participation and call on others to express their thoughts.

Take short breaks to relieve tension.

 Form small committees to deal with specific problems or issues instead of using valuable group time.

—Adapted from "Heaven Sent Housecleaning Cooperative," by Gayle Haberman

Conduct economic feasibility study; share findings with potential members. Obtain a commitment to proceed.

PURPOSE

To assess whether the proposed co-op is likely to be successful and beneficial to its members by examining important factors, including markets and volume of business, potential membership, facilities and equipment needed, estimated operating costs, capitalization, and financing options.

GUIDELINES

Divide the tasks and assign them to individuals or subcommittees. Every attempt should be made to assure that data is collected and utilized to make realistic projections.

Survey potential members.

The survey must be thorough, confidential, and accurate, because the results are crucial to the way that the marketing co-op is organized.

- Determine what information you need from potential members and prepare a list of questions. Surveys can be completed faceto-face, by phone, or through distributed questionnaires.
- Contact everyone who is interested in the co-op. Survey information should include:
 - 1. what they produce;
 - 2. current marketing costs;
 - how much they produce and how much they would be marketing through the co-op;
 - 4. what their overall needs are;
 - 5. what they would like to accomplish from the co-op;
 - whether potential members plan to market all of their products through the co-op or whether they expect to conduct sales and marketing through other outlets as well.
- Summarize the common needs and how much each member can contribute to the co-op's business volume.

Conduct preliminary market research and analysis.

This research will vary slightly depending on the particular product to be marketed, but generally the results should discern the potential market niche for the co-op, identify potential markets, and define operational technicalities like method of distribution.

- Talk to key individuals from similar co-ops in your state and visit those nearby.
- Estimate potential customer base.
- Find out about similar, non-cooperative businesses and how they operate.

Identify special equipment, facilities, or licensing required.

- Note any requirements the government may impose on the business, and list the types of equipment and facilities required to operate the business.
- Compile a list of permits needed (including business licenses), equipment and facilities to be acquired, and tasks to be accomplished. Approximate the costs and the lead time required to obtain them.

Calculate the costs of doing business and prepare financial projections. The initial financial projections and other findings must make sense and justify starting a co-op.

- When calculating start-up costs, include rent, payroll, insurance, equipment, utilities, raw materials, advertising, and other business expenses. Establish a price for the product or service and answer the following questions:
 - 1. Will prices be at or below the competition?
 - 2. Would the product or service sell at these prices?
 - 3. Can the business make a profit if it sells the product or service at the proposed price?

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4. Will members profit from joint marketing?

Make comparisons and evaluate competition. Using the above answers, compare your proposed business with other businesses in the same industry.

 Talk to bank or trade association representatives, or, if possible, other firms to learn about typical businesses in the industry, or what the prospects are. Use public sources of information to get data on the firm or industry.

Explore sources of funding. Starting a coop requires secure financing; explore all sources of funding to finance the start-up. Determine the funds needed to start and operate the enterprise. Consider if members could contribute "sweat equity" in addition to cash as part of their initial investment.

- There are two primary ways to compete successfully:
 - 1. offer a lower price than the competition,
 - 2. offer a better (or differentiated) product or service.

The second approach is often more realistic for small businesses.

- Investigate and identify possible sources of capital funding—membership capital as well as loans from banks and other lenders, or possible grants.
- Investigate alternative funding sources such as special start-up financing, economicdevelopment money for job creation and community revitalization, and selfemployment or small-business loans available to firms in certain locations.

Utilize professional assistance. It is often necessary and beneficial to hire consultants or experts to help complete the feasibility study, write the business plan, and prepare for business start-up.

Obtain help from outside experts and consultants experienced in starting new businesses and new marketing co-ops. Check with your regional cooperative development center, university business school, Small Business Development Center, county extension office, state and local economic-development agencies, chamber of commerce, and related groups for technical resources and experts. Additional sources range from fellow producers, suppliers, customers, and other businesses and co-ops, to libraries, trade associations, and colleges and universities.

Prepare a written report. Compile and briefly present the information collected in an easy-to-review style. Outside experts and consultants can be invaluable in verifying the accuracy of your research.

Meet to discuss the report and findings.

- Encourage full discussion by all participants.
- After presenting the feasibility study and steering committee's recommendations, allow point-by-point discussions. Several meetings may be necessary to cover all elements of the feasibility study.
- Participants may request further research or changes in the report.
- Following in-depth discussion, vote on whether to proceed.

KEY DECISION:

IS THERE SUFFICIENT PRODUCTION
CAPACITY FROM MEMBERS AND DO THE
INITIAL FINANCIAL PROJECTIONS SUPPORT
STARTING A CO-OP?

For more detailed information: (for the complete citation, see the *Bibliography*) National Society of Accountants for Cooperatives: *NSAC Resource Guide* Rasmussen: Financial Management in Cooperative Enterprises U.S. Department of Agriculture: Income Tax Treatment of Cooperatives

FEATURE: FEASIBILITY STUDY DECISION CHECKLIST

Elements of the Feasibility Study	Completed	Not Completed	Action to be completed
Purpose of the co-op Common needs of members have been identified. Services that the co-op will provide to members have been determined.			
 The kinds of products the co-op will market have been defined. Business potential Surveys of potential members have been conducted to identify products and determine product supply estimates and member 			
 needs. Potential markets for products have been determined. Survey results have been tallied and used to estimate membership size and supply of products for marketing. Shipping or transportation needs (and costs) involved in getting the co-op's products to its customers have been outlined. 			Example Services (Services
 Probable competition has been identified. Define how operations will work Method of guaranteeing that members will maintain a predictable supply of products or services for marketing has been determined. 			
 Description of general operating procedures has been determined. Total costs of necessary equipment, facilities, and personnel have been determined. Approximate costs and benefits of marketing without a co-op have been determined. (This will need to be compared with potential financial benefits to the members of the co-op.) 			
 Start-up costs have been determined. Approximate operating costs have been determined. The financial relationship of operating costs, member benefits, and financial needs has been determined. 			
Financing sources and costs Financing options and their related costs have been determined. The amount of initial funding potential from members and other sources has been estimated. The approximate total amount that members will need to contribute to the base capital of the co-op and methods of collection have been ascertained.			
 Start-up needs A realistic timeline for starting the co-op has been established, considering organizational and research time, availability of facilities, seasonal production cycles, management recruitment, and other applicable factors. Approximate start-up costs, including the availability and cost of facilities, have been determined. 			

Steps to Starting c Marketing (o-op

Develop a membership agreement; initiate funding and membership commitments.

Steps to Starting a Marketing Co-op

PURPOSE

To begin the funding processes and to clearly discern membership size and the mutual obligations of the co-op and each member.

GUIDELINES

Initiate funding.

- Obtain definite financial commitments from potential members to distinguish those committed to the co-op, and to generate money to pay for preparing the organizing documents outlined in Step 7.
 Observe state and federal securities laws.
- Select a bank or financial institution and establish a system of bookkeeping and handling of the co-op's finances.
- Depending on the amount of the capital contribution required, it may be necessary to obtain a loan from a credit union or other lender for the members. Members pay off the loan in installments or through sales deductions once the enterprise is operational.
- Prepare loan documents, as applicable, to seek additional funding from banks, lending agencies, economic-development agencies, and other sources.
- Additional canvassing may be needed for prospective members who want more time to think about joining the co-op.

Assess co-op membership size. The feasibility study should reveal approximate minimum and optimal number of members (and product quantity).

- Canvass uncommitted potential members who want more time to think about joining the co-op—discern reasons for reluctance and determine if they can be addressed.
- If membership size/product quantity is low, increase recruitment efforts.

Design a membership agreement. The membership agreement specifies the rights and obligations of membership. It is an important document that should be created with the input of organizers, prospective members, and legal counsel.

- The membership agreement should:
 - 1. Describe the membership process;
 - 2. Describe policies for member sales to sources outside the co-op;
 - 3. Define the process for assessing product quality and how below-quality products will be handled;
 - 4. Define the parameters of members' commitments to a specified quantity (including a minimum, or range) of products to be marketed through the co-op and any penalties for not delivering the agreed-upon amount;

- 5. Describe the process of product delivery;
- 6. Specify nonmonetary obligations to the co-op—e.g., training new members, volunteering time at co-op, attending meetings, etc.;
- 7. State co-op obligations to members—e.g., marketing of product, accounting reports, etc.
- Once the co-op is operational, prospective members become members when they sign the approved membership agreement and follow through on its preliminary conditions, which include making an initial capital contribution.
- Decisions made about the membership agreement will be incorporated into the coop bylaws. At the same time, adjustments may need to be made to the agreement to make it legally compliant and ensure that it is consistent with other legal documents.



ARE POTENTIAL MEMBERS ABLE TO AGREE ON SPECIFIC MEMBER AND COOPERATIVE OBLIGATIONS?

For more detailed information: (for the complete citation, see the *Bibliography*) Center for Cooperatives: *Starting an Agricultural Marketing Cooperative*

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FEATURE: SAMPLE MEMBERSHIP AGREEMENT

As a member-producer of ______ I agree to:

- 1. Be bound by the cooperative's articles of incorporation, bylaws, rules and regulations now or as amended.
- 2. Agree to offer all of my approved products to the cooperative first, before offering them to any other market.
- 3. Abide by the cooperative's price structure; in the event I produce more items (or a volume of items) than the cooperative can sell, I can sell to another market at a price no less than the co-op's. If I sell to an individual, I must sell at retail prices.
- 4. Appoint the cooperative as my agent, to sell all of the products contracted for that have been approved by the Standards Committee or quality-control manager. After approval, all products received by the co-op will be inspected for quality. I will accept the return of unsatisfactory products.
- 5. Deliver such products at such time and to such places as may be prescribed by the co-op, or its representative.
- 6. Notify the co-op of any lien on the products delivered.
- 7. Supply to the co-op only those products designated and contracted for by the co-op.
- 8. Pay the co-op a penalty on any products not delivered as agreed in this contract. The penalty would be equal to the gross margin lost to the co-op by the undeliverable products, plus any legal fees it incurs in the collection of this penalty.
- 9. Provide my (product information, designs, patterns, list of ingredients) for approved products to the co-op.
- Assist the co-op in training other members to meet market needs as possible and practical.
- Serve on at least one co-op committee as described in the co-op bylaws or operating procedures.
- 12. Attend the co-op's annual meeting or follow established procedures for "excused absence."

I hereby agree to deliver the following items, to be marketed wholesale and/or retail at the discretion of the co-op:

item	quantity
	The special of the Africa
The co-op agrees to:	

- Accept producers as members when their products have been approved by the Standards Committee or quality-control manager.
- 2. Act as agent for the marketing of products of the member-producer as herein provided.
- 3. Market products in a manner deemed to be most advantageous for co-op members.
- Account to the member in accordance with this contract for all amounts received from the sale of those products.

						Tir da	Legislation of
(member's n	ame)		0	address)			(date)
144 (175) 14 (175)						The Chark	er aller och er fra ter aller och er
(member's so	ocial securi	ty number, p	ohone, etc	.}	110 1 N		(amount paid)
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on behalf c	of						
	(name	of coopera	itive)	er in anna a gar en kalambara alƙar	(address, etc	.)	

Prepare and review the business plan.

PURPOSE

Define how the co-op will be structured and financed. Approve the business plan and obtain verbal and financial commitments to proceed with co-op development.

GUIDELINES

The successful co-op relies on a detailed and thorough business plan. The business plan serves two main purposes: (1) it is the blueprint and basic guide for the members and managers when the co-op starts operations; and (2) it is the central document to any loan or other funding application. An outline of essential elements of the business plan appears on page 23.

Importance of the business plan

The business plan is a revised and expanded version of the feasibility study. Pulling all elements together into one complete plan helps to minimize the risk of business failure. The plan will change over time to adapt to changes in the business environment.

The business plan addresses and outlines every facet of the potential business and operations, including

- aspects of marketing and clientele, whom the customers will be, how they will learn about the co-op's products, how the products will get to them, and sales projections.
- responsibilities and expectations of

producers/potential members regarding handling, display, and marketing of products or services, and payment to producers and the co-op.

- presentation and testing of ideas and assumptions, projection of start-up and operational costs—and where the money will come from.
- verifying the accuracy of the business plan by getting accurate and objective feedback from consultants and resource people experienced in business start-ups and preparing business plans.

Prepare the report for presentation to potential members

- The organizing or steering committee should prepare a report (or supervise its preparation) that summarizes the findings of the businessplan research. Attach the summary to the top of the business plan and distribute to potential members for review.
- End report with the steering committee's recommendations of whether to proceed with the co-op.

Discuss the business plan with potential members; obtain their consent to proceed.

- Review and discuss the business plan; make adjustments.
- Obtain the group's formal commitment to organize the co-op.
- Vote on whether to proceed.



DOES THE BUSINESS PLAN SUBSTANTIATE MEMBER BENEFITS AND THE CO-OP'S SHORT-TERM AND LONG-TERM VIABILITY AS A BUSINESS ENTERPRISE?

For more detailed information: (for the complete citation, see the Bibliography)

Deloitte and Touche: Writing an Effective Business Plan Swanson and Myers: Business Planning for Cooperatives Steps to Starting o Marketing Co-op

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FEATURE: A BASIC BUSINESS PLAN

Table of Contents

Steps to Starting a Marketing Co-op

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1. Introduction and Summary

Include name, address, and phone number of business, names (and phone numbers)
of key personnel (management and board of directors or steering committee), summary
of business plan findings.

2. Business Description

- Include statement of purpose for the co-op, definition of members, summary of legal entity, goods and/or services to be offered by the co-op;
- industry overview, current status and prospects in the industry, new products and developments, trends influencing the industry;
- product description, how it is unique, status of product development;
- strategies used by the cooperative to ensure a predictable supply of products.

3. Market Research and Plan

- Define potential customers and market size and trends—competition analysis; estimated sales and projected market share;
- overall marketing strategy—quality control; pricing; sales tactics; service and warranty policies; advertising and promotion plans.

4. Management and Development Plan

- Define roles and responsibilities of management, board of directors, members, and key personnel on an organizational chart;
- identify training needs, professional support services, staff needs, and associated costs:
- organizational development—steps in developing the business, obstacles and risks, development schedule, projected costs.

5. Technical and Operational Plan

 Include general operational plan, break-even levels of production, location, facilities description and capacity, equipment needs, labor force, analysis of critical risks.

6. Financial Plan

- Utilize a spreadsheet computer program so that various financial scenarios can be easily evaluated and the file can continue to be used once the co-op is operational;
- projections for profit and loss, cash flow, and balance sheet, break-even analysis, financing sources, and justifications for these projections.
- presentation of optional financial plans given three scenarios—best, worst, and expected.

7. Community Benefits

 List economic (jobs created and projected revenue) benefits and services available to the community.

8. Supporting Documents

 Include résumés of leadership group, letters of reference, copies of drafted membership agreements (these are subject to approval by the membership), etc.



Draft bylaws and articles, and secure membership and financial commitments.

PURPOSE

To clarify organizational details, prepare necessary legal papers, and secure the written and financial commitments of members.

GUIDELINES

Completion of all components of this step will require several meetings. Use the guidance of an attorney experienced with cooperatives to complete legal papers.

Note: Because sample bylaws and articles are linked to incorporation statutes and vary from state-to-state, sample bylaws are not featured in this publication.

Select a name.

To conduct business and incorporate, the coop must have a name. Including the word "cooperative" or "co-op" in the name reminds members and the public that it is a memberowned business. In some states, organizations legally incorporated as a cooperative are required to include the words "cooperative" or "co-op" in their name, and they are the only corporations permitted to use these words.

Decide how to incorporate the business.

Although it is not required, there are many compelling reasons for a co-op to legally incorporate. Incorporation limits the liability of individual members, provides a legal entity for business transactions, allows enforcement of bylaws and membership agreements, and may provide tax advantages. Incorporation is governed at the state level and co-ops often have several statutes that can apply to their business areas. It is important to select a corporate statute that is compatible with the cooperative business structure and related tax advantages. For this reason it is important to consult an attorney experienced with cooperatives. Furthermore, if your co-op is marketing agricultural products, the attorney should have experience specific to agricultural cooperatives.

Prepare bylaws. It is important that bylaws reflect the specific issues and needs unique to your cooperative. Proposed bylaws must be thoroughly discussed among prospective members (and modified where necessary) before adoption. Obtain bylaws from other marketing cooperatives in your state that are in the same, or similar, industry. Sample bylaws such as these should be used for reference but not as a template. The references that follow this step contain sample bylaws.

- The bylaws, or fundamental rules of the coop, provide legal guidance for operating the co-op. Because changing bylaws can be a difficult process, each bylaw should be presented as a general statement that will remain consistent over time. Guided by the bylaws, the co-op will eventually need to establish policies and operating procedures that are more specific.
- Ensure that the bylaws adhere to applicable laws; involve an attorney with co-op experience in the process.
- If the co-op is very small or members prefer to participate in policy decisions collectively, the bylaws may indicate that all members serve as directors. In this case, bylaws and operating procedures should reflect this as the co-op's governance and decision-making structure.
- In general the bylaws should:
 - specify who is eligible for membership and the membership process;
 - identify the capital contributions members must make;
 - describe the intricacies of share issuance, disclosure documentation,

Steps to Starting a Marketing Co-op

withdrawals, and other issues related to shares;

- make a general statement about quality standards and identify the entity for establishing and evaluating the process for assessing product quality;
- 5. provide general guidelines for the processing of sales for members' goods or services;
- 6. identify how distributions will be made;
- 7. define how the net income or losses of the cooperative will be distributed;
- 8. identify how decisions are made;
- 9. state the roles and responsibilities of the board of directors and officers and how they will be selected;
- specify minimum frequency and procedures for membership and board meetings;
- 11. explain expectations for ongoing education and training;
- 12. set processes for member, board, or officer termination or expulsion, and for how bylaws can be changed.

Prepare articles of incorporation (if applicable). The articles of incorporation are the founding legal documents that give the corporation its legal existence.

- The articles should set forth the cooperative's name, address, duration, and purpose; how membership works; what capital is required of members; what happens to the cooperative's assets upon dissolution; and other information required by state regulations.
- Articles should be general (more general than bylaws) so that they are as flexible as state statutes allow. The articles take precedence over bylaws, and bylaws cannot contradict what is stated in the articles.
- The proposed articles of incorporation should be approved by prospective members. If the group is not hiring an attorney to write and process the articles of incorporation, the articles should be reviewed by an attorney familiar with cooperatives and filed with the Secretary of State's office, or other appropriate state agency. If the articles satisfy the statutory requirements and the fees and taxes are paid, the Secretary of State will issue a certificate of incorporation that creates the cooperative.



AGREE ON KEY LEGAL DECISIONS RELATED TO THE CO-OP'S PURPOSE, FUNCTIONS, AND PROCEDURES. DO WE HAVE MEMBERSHIP COMMITMENT TO CO-OP?

For more detailed information: (for the complete citation, see the Bibliography) Baldwin: Cooperative Incorporation Sourcebook National Cooperative Bank: Draft Articles and Bylaws

FEATURE: THE ARTERY

An Arts and Crafts Marketing Cooperative

The Artery, an arts and crafts cooperative in Davis, California opened its doors on December 17, 1974. Shula Blumenthal, Artery co-founder, notes that the cooperative was formed to meet very specific needs: "... artists and craftsmen need a place where they can sell their creations, meet together, bounce their ideas off of each other, and grow." Formation of the co-op was gradual. At first, artists met monthly in each other's homes, sharing their work with one other and engaging in "art talk."

The business success of The Artery probably has as much to do with the enduring cooperative spirit of its members as it does with sound business practices. The spirit (and hard work) of the fifteen original members was the catalyst to the cooperative's formation. After raising initial capital through a community art auction, members put their skills to work building display cases and cabinets using old lumber and doors. A member with professional business experience became the co-op's bookkeeper. Ann Wright, a founding member, recalls those early days: "At that time we were so excited whenever we sold something that we would call each other every time we made a sale." After the first year the co-op hired a business manager.

The Artery has an integrated, rather than compartmentalized, display. A display crew rotates member artwork from window display through various places in the store on a regular basis. An alcove off the main showroom is used as a gallery for special one- or two-member art shows. Any member can use the gallery on a rotating basis, but they are responsible for set-up, dismantling, and other logistics of the show. The Artery cooperates with other community art galleries in scheduling their monthly art openings on the same evening.

Today, The Artery has 47 members and operates much as it did in the early days except that there are more people interested in membership than the cooperative can accept. To ensure high-quality art in a variety of media, artists interested in membership submit their work to a review board made up of Artery members. Once they become members, artists pay an annual membership fee plus a percentage of their sales. They also work in the store for two shifts per month. The business manager remains the store's only paid position.

A very limited amount of nonmember crafts are sold on consignment. Nonmember items are shown to add variety and offer crafts that will bring more consumers into the shop. Members are permitted to participate in art shows outside the Artery and to sell their art as individuals, but they remain committed to having the Artery as the primary local vendor for their artwork.

Members continue to benefit from their co-op. Attesting to the benefits of co-op membership, ceramist Heidi Bekebrede notes, "I can't imagine being part of the traditional gallery scene now, having one show a year or even less. At the Artery I can show and sell my work almost every day of the year."

Hold the co-op's first, or charter meeting; finalize legal documents.

Steps to Starting a Marketing Co-op

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PURPOSE

Formally begin the co-op by approving legal documents and institutionalizing governance of the new cooperative. This is also the first annual meeting. Most co-ops hold an annual membership meeting that reviews financial reports, and reviews, discusses, and votes on proposed policies.

GUIDELINES

CONVENE MEMBERSHIP MEETING.

It is very important that meeting minutes carefully document the outcome of decisions. The following should be addressed:

Approve the articles of incorporation.

Note: The content of the articles should have been reviewed at previous meetings, and concerns addressed.

- Review the articles. Allow time for members to discuss any concerns or questions.
- Vote to approve the articles.

Adopt bylaws.

Note: The bylaws should have been thoroughly reviewed at previous meetings, and concerns addressed.

- Review and discuss bylaws. Amend, if necessary, assuring that changes are legal.
- Vote to approve the bylaws.

Review member roles and responsibilities.

Members govern their co-op by electing the board of directors to make policy decisions on their behalf. The board hires and oversees management; management is accountable to the board, and the board is accountable to the members. In this way, members exercise control of their cooperative.

Elect board of directors.

Note: If members previously decided to make policy decisions collectively, the entire membership serves as the board of directors.

• Elect the cooperative's first board of directors.

Approve membership agreement; obtain signatures.

- Review the membership agreement and vote on its adoption.
- Have members sign the agreement before leaving the meeting.

CONVENE FIRST BOARD MEETING.

The board of directors should hold its first meeting shortly after the charter membership meeting. The following should be addressed at the meeting:

- Elect officers—board president, vicepresident, secretary, treasurer, and other positions as defined in the bylaws.
- Clarify board and management roles and responsibilities and how responsibilities will be fulfilled (e.g., prepare job descriptions, action plans, or work assignments).
- Review and discuss financial reports.
- Refer to the business plan and address all matters needing attention to start operations, including hiring the co-op's management.

KEY DECISIONS:

ARE THE ARTICLES AND BYLAWS
ACCEPTABLE TO THE MEMBERS? WHO WILL
SERVE ON THE BOARD OF DIRECTORS?

For more detailed information: (for the complete citation, see the Bibliography) Chapman, Holland, and Kenny: The Contemporary Director Garoyan and Mohn: The Board of Directors of Cooperatives
U.S. Department of Agriculture: Organizing and Conducting Cooperatives' Annual Meetings Zovickian: Director Liability

The board of directors is elected by the members. When a co-op chooses to operate without a formal board, each cooperative member should be designated as a director. The primary responsibility of the board of directors is to ensure that the best interests of the corporation (the cooperative) and its owners (the members) are protected. The board is responsible for the co-op's actions and compliance with regulations.

The fundamental legal standard for directors is to act in good faith, in a manner they believe to be in the best interests of the co-op, and with such care as an ordinary prudent person in a like position would use under similar circumstances. All directors are responsible for meeting this standard.

Boards meet at regular, set intervals, for example, monthly, bimonthly, or quarterly. Officers (president, vice president, secretary, and treasurer) are typically elected to organize work and to assist in the board's internal operations. Effective boards obtain training and help as soon as possible and pursue ongoing training and educational programs to help them understand and effectively fulfill their responsibilities.

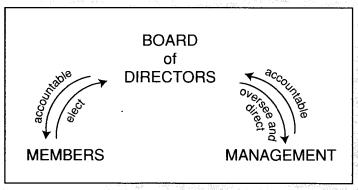
The board has three primary responsibilities:

- 1. to act as trustees on behalf of the members. The board does this by establishing mechanisms for member input, by carefully monitoring the co-op's financial status, by hiring auditors to review the financial records, by making regular reports on the status of the co-op to the members, and by making sure that the co-op follows its bylaws, policies, and appropriate regulations.
- to ensure the sound management of the co-op. The board is responsible for hiring and supervising the co-op's management. It does so by reviewing management reports and monitoring key indicators (such as inventory turnover, cost of operations, sales trends, or other financial ratios) and evaluating management performance.
- 3. **to set long-range goals and plan for the co-op's future**. The board does this by participating in strategic planning discussions with the membership and managers by approving yearly and long-range plans, and by setting performance goals.

A special note on the importance of clear board and management roles:

The co-op board of directors plays a key role in the success of the organization and is accountable to the members. The member-owners elect the board. Management is accountable

to the board. Management establishes and oversees administration of the co-op's affairs in accordance with the cooperative's bylaws, carries out the goals and objectives set by the board of directors and members, and hires and supervises other staff.



Steps to Starting **a** Marketing Co-op

Implement the business plan. Prepare for business start-up.

Steps to Starting a Marketing Co-op

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PURPOSE

To prepare for the start-up of the co-op's operations.

GUIDELINES

Note: Follow the steps set forth in the business plan; it is the blueprint for organizing the new business.

Selecting management. The selection of competent management is critical to the success of any new business. If management has not already been identified or hired, do so before starting operations.

If the co-op does not hire a manager (for financial or other reasons), the traditional manager's role may be divided among the owners.

Hire a manager.

The board of directors or a special committee is responsible for hiring a manager.

- Identify the knowledge, skills, and experience expected from your first manager.
- Prepare a job description that clearly specifies responsibilities (see p. 30).
 Establish specific goals for the manager during the first year.
- If applicable, advertise the position widely. Many trade magazines require substantial notice before listing positions. Local papers and employment offices often list jobs very quickly. Depending on the skills and experience needed, you may want to engage a search firm. Use local contacts—economic-development agencies, chambers of commerce, businesspeople, other worker co-ops—to publicize the position.

- Carefully screen all applicants. Check references and job experience.
- As you search for potential co-op managers, look for managers with successful business start-up experience. The right manager for a start-up may not be the same manager to guide the co-op's operations in the long term. Starting a new business requires special skills.
- Early management responsibilities include following plans and instructions established by the board of directors, communicating with members, researching facilities and equipment, working on marketing and sales efforts, and making arrangements to begin the co-op's operations.

Secure financing and finalize agreements from all sources: members, grants, loans, purchases, and rentals.

 If some members have not paid their capital contributions, follow up on their commitment.

- Refer to the business plan for additional debt capital strategies to start the business.
- Explore all possible economic-development funding sources for job creation or community revitalization.

Acquire facilities and necessary licenses and permits.

- Enter into the necessary agreements to rent or purchase business premises or production facilities.
- Obtain the business and other permits needed to operate the business.
- Obtain bids and purchase needed equipment and materials.

KEY DECISION:

IS THE CO-OP READY TO BEGIN OPERATIONS?

For more detailed information: (for the complete citation, see the Bibliography) Henehan and Anderson: Decision Making in Membership Organizations Fry and Stoner: Strategic Planning for the New and Small Business

FEATURE: SAMPLE GENERAL MANAGER JOB DESCRIPTION

Accountable to

The general manager is hired and supervised by the co-op's board of directors. The general manager serves at the board's discretion.

General Responsibility

To establish and oversee the management of the co-op's affairs to meet the goals and objectives set by the board of directors. Hire and supervise other staff as needed.

Specific Responsibilities

Board relations

- Prepare clear and timely reports to the board. Address board concerns and issues
 raised by the board in a timely and effective fashion.
- Keep directors informed about major matters between board meetings.
- Work with the board to prepare for and ensure productive, effective board meetings.
 Prepare proposals for board consideration.

Finances

- Ensure adequate financial records and internal controls to provide timely and accurate financial statements. Prepare financial statements to submit to the board.
- Ensure that the co-op's assets are adequately safeguarded from loss.
- Coordinate the preparation of all budgets and financial projections.
- Oversee in-depth financial analysis and promptly address financial problems.
- Initiate financial planning, use of member equity, financing needs, future profitability, etc.

Marketing

- Prepare comprehensive marketing plans to build short-term and long-term stability.
- Ensure that the co-op is effectively presented to customers and to the public.
- Monitor and improve customer and member service levels.
- Perform regular analysis of the co-op's competition and market potential.
- Represent the co-op in trade and local business associations.

Operations

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- Effectively organize the co-op's operations to maximize profitability.
- Identify and address operational problems.
- Plan for the co-op's ongoing operational needs, including technology, facilities, and equipment.
- Ensure compliance with all applicable federal, state, and local laws.
- Maintain adequate security of facilities and insurance for the business.

Human resources

- Establish and ensure that effective personnel policies and procedures that support the co-op's values are in place.
- Hire, evaluate, and set compensation for staff.
- Ensure adequate training, evaluation, safety, and personnel systems.
- Monitor personnel "key indicators" and plan for improvement as needed.

Member relations

- Establish systems and procedures that ensure that the co-op's members remain informed about the co-op's status, needs, and activities.
- Make sure that members' needs are regularly measured and addressed.
- Establish quality-control standards and enforcement procedures. Communicate clearly about these standards and procedures to members.

Steps to Starting a Marketing Co-op

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Start operations. Follow the business plan.

Steps to Starting a Marketing Co-op

PURPOSE

Begin operations.

GUIDELINES

Once the co-op is incorporated, has approved its bylaws and basic rules, hired or appointed a manager, acquired the necessary finances, and obtained suitable premises, it is ready to begin operations. The first task of management is to implement the co-op's business plan. Components in this step may be assigned to the manager.

Develop community recognition.

- Publicize the co-op's opening in the appropriate media to create name recognition and a positive image in target markets.
- Hold a grand opening or similar commemoration.

Establish and maintain ongoing member communication about co-op performance.

Effective communication, participation, and decision making are critical to co-op success.

- Establish procedures or systems to keep members informed of progress and problems, and ensure ongoing communication.
- Develop a plan for recruiting and screening new members.
- Conduct periodic membership surveys to make sure the co-op is meeting needs.

Establish and maintain good relationships with customers and suppliers.

• Conduct periodic customer surveys to make sure the co-op is meeting its customers' needs and expectations along with achieving its business objectives.

Implement the education and training plan. Because education is critical to the success of a co-op, regular education and training to improve the business, communication, and cooperative skills of the members should begin as soon as possible—even before start-up—and continue regularly.

Hold a planning session or retreat. Once operations have been underway for 6 to 9 months, hold an intense planning session or retreat for the board and management (or for the entire cooperative—if the membership is small) to discuss how things are going and where to go next.

- Establish short-term (1 year) and mediumterm (5 year) business goals. The co-op's ongoing success depends on constant vigilance to effective business practices, good customer relations, and anticipating changes in the marketplace.
- Review the Keys to Success list after this section and develop a strategy for strengthening the co-op's operations in those areas.
- Integrate ongoing training for the co-op's board and management—continuous education is critical to keeping members and the co-op's leadership "up to speed."



HOW CAN WE MAKE THE CO-OP AN ENDURING, SUCCESSFUL COOPERATIVELY OWNED BUSINESS?

For more detailed information: (for the complete citation, see the Bibliography)
Baldwin: A Legal Guide to Co-op Administration
U.S. Department of Agriculture: Working with Financial Statements: A Guide for Cooperative Members

KEYS TO SUCCESS

Each cooperative has unique aspects and faces different start-up challenges—however, there are common areas critical to the future success of the cooperative. The main reasons that new businesses, including cooperatives, fail are:

· insufficient financing

lack of business expertise

By paying careful attention to these areas you can avoid many contributors to business failure. The following are some key ways to ensure the success of a new cooperative business.

1. Clearly Defined Purpose and Focus If you don't know where you are going, any old place will do.

When a co-op's purpose is clear and understood by everyone involved, it is much easier to define the path (business plan) and achieve stated goals.

In the beginning, primary goals should be addressed with a specific focus—possibly handling a few products or services. This gives the co-op the opportunity to test the market and collect detailed information that will promote growth, stability, and success.

2. Feasible Business Idea and Thorough Business Plan

The business plan is a road map detailing where your co-op is going, and how it will get there.

All new businesses involve risk. The purpose of the business plan is to minimize the risk and maximize the chances of success through research and planning.

The business plan should be accurate and comprehensive enough to make people feel secure in investing large amounts of their own money. If members do not have enough confidence in the plan to invest their own money, neither will a bank.

3. Sound Business Practices

If you don't drive your business, you will be driven out of business (B.C. Forbes: Forbes, 1 Apr 74).

Sound business practices create a solid foundation from which to operate. Good bookkeeping and accounting in the beginning prevent major financial problems down the road.

4. Adequate Financing

Success is more a function of consistent common sense than of genius (An Wang: Boston Magazine, 1986).

Co-op members are the key initial source of financing for the cooperative. Money is collected from the members through the sale of membership shares—the ownership certificates of the cooperative. Equity capital supplied by the members must be sufficient to provide enough collateral to leverage additional debt financing from banks or other lending institutions.

Options for obtaining additional financing should be thoroughly researched. Options often include grants, loans, special start-up financing, economic development money for job creation and revitalization, and member loans. Local economic development offices and other agencies may have modest amounts of money to assist groups with start-up financing or may assist in locating other financial sources.

5. Business Advisors and Consultants Knowledgeable about Cooperatives

Many failed cooperatives neglected to take advantage of business and cooperative business expertise.

Advisors and consultants can save you time and money while helping your co-op avoid predictable pitfalls. Most producers are not business experts, and cooperatives are complex businesses. Utilize competent legal, accounting, lending, and business-development advisors—check references and get referrals from other cooperatives and businesses. Someone familiar with co-ops should review work completed for your group.

6. Strong Member Commitment

If the new venture is to succeed it must have a broad base of support among its members.

It is not enough for lenders, accountants, attorneys, consultants, and even a few leaders among the member group to believe in a project. This support is actualized by clear membership agreements. The co-op is the primary place of business, and strong financial commitment from the members is critical. These are indications of support and confidence in the co-op by the membership.

7. Quality-Control Standards

A business is only as good as its products.

A consistent quality of product or service is essential for the co-op to successfully market members' goods. Product standards should be clearly specified in the membership agreement.

8. Clearly Defined Roles for Directors and Management

Boards direct, managers manage.

Many problems associated with cooperatives can be avoided by ensuring that the board of directors and the management clearly understand their respective roles and responsibilities. The boards' primary obligation is to set policy, help guide planning, and monitor management. The management's responsibility is to run the day-to-day operations of the co-op.

9. Ongoing Cooperative Education for Members, Directors, Management, and Employees

Education is the ability to listen to almost anything without losing your temper or your self-confidence (Robert Frost: Reader's Digest, Apr 60).

In our society we are not taught how to own and operate a business cooperatively. Because of this unique ownership structure, ongoing education and training is critical to the longterm stability and strength of the cooperative.

10. Working Relationships with Other Cooperatives (Avoid Isolation)

Cooperatives best serve their members, and their community, by cooperating with other cooperatives.

Because cooperatives are unique, there is a tendency to feel isolated in the business world. By networking with other cooperatives, cooperators have the opportunity to learn from each other, share war stories and laughs, and avoid a sense of isolation. By doing business with other cooperatives, cooperators not only have a better understanding of one another, but strengthen the cooperative movement as a whole.

Keys to Success

FEATURE: THE SAN DIEGO COUNTY FLOWER AND PLANT AUCTION

A grower-owned marketing co-op

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The California Flora Culture Growers Association of the San Diego County Flower and Plant Auction was established in 1982 to help flower growers sell their products. The coop allows grower-members to earn more income and control how their products are handled.

The co-op's day begins as members deliver their cut flowers and greens to the co-op at 4:00 a.m. At 6:00 a.m. customers can inspect products; on the floor sales begin a half-hour later. The co-op's customers are retail florists, some of whom travel over 100 miles to shop.

For its 32 members, the co-op provides many tangible benefits. The co-op provides an outlet for member products, charges members less commission than wholesalers, and permits members to pick up unsold merchandise for other uses. The co-op sells about 90 percent of what members deliver.

To join the co-op, a grower must sell through the auction as a nonmember for one year, paying a higher rate of commission. After a year, the grower can apply for membership. If the grower has sufficiently delivered the quality and amount of product per contract terms, the grower is accepted. Members are required to invest \$5,000 in the co-op, which can be paid over three years.

Today, the co-op has twelve employees, eight of whom work full-time. Although the majority of the co-op's members are in California, the co-op also has member-growers items from Washington, Oregon, Hawaii, and Florida. After moving twice, the co-op decided that a permanent location was vital to its success. It now owns one-sixth of the 150,000 square foot building that serves as the San Diego International Floral Trade Center.

CONCLUSION

Starting a co-op can be a challenging and rewarding activity. It requires research, careful planning, patience, and uncounted hours. The co-op may not turn out exactly as it was originally conceptualized. It will inevitably take longer than you wish it would to get started.

For groups that invest the time and effort to start a co-op, there are abundant benefits. You will learn much and become the co-owner of a dynamic and valuable business. Most of all, you will provide yourselves with income and other tangible economic benefits. Good luck!



GLOSSARY OF TERMS USED

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articles of incorporation — the founding legal documents of a corporation. When articles of incorporation are filed with and approved by the appropriate state agency, the corporation begins its distinct existence, subject to the laws and regulations affecting that type of corporation.

bylaws — describe how the co-op will conduct its affairs. Although bylaws need to be more specific than articles, it is wise to avoid being *too* specific. Bylaws are approved by the membership and specify in more detail the procedures that will be used in approving members, distributing net income, paying back members' capital, voting, the number and responsibilities of the board of directors, and other matters.

board of directors — the elected body responsible for the actions of a corporation.

capital — money used in a business, whether supplied by owners or borrowed. Capital most typically refers to the money contributed to a business by the owners or stockholders. In accounting, capital refers to the remaining assets of a business after all debts and amounts owed to others have been deducted.

Capper-Volstead Act (1922)—This law allows farmers to lawfully unite to handle, process, and market agricultural products as long as certain conditions are met, including that such actions must be for the mutual benefit of agricultural producer-members; the co-op will deal in products of members in an amount greater than products of nonmembers; that decisions are made on the basis of one-member, one-vote; and a limit of dividends of 8 percent per year.

corporation — a legal entity created under state corporate laws. Once established, a corporation has its own legal powers, rights, and liabilities distinct from those of its owners or managers.

dividends — amounts paid to business owners based on their investment. Typically, dividends represent a share of profits paid to shareholders proportionate to the shares held. Cooperatives sometimes pay dividends to encourage member investment.

equity — the **ownership** interest in a business. Equity is typically calculated by subtracting all liabilities (amounts **owed**) from all assets (amounts and property owned). Equity is made up of investments by **owners** (members) and the cumulative earnings of the business.

incorporate — to establish a business as a legal entity. Incorporation typically entails filing articles of incorporation and bylaws with the state to conform to a corporate statute.

market pool — a business arrangement between cooperative associations and their producer members whereby the commodity, product, or crops of many producers are sold by the association instead of the individual producers. The proceeds of the sale are divided among pool members. The cooperative management determines the best time and place to sell. Members then receive the average return earned by the pool.

net savings — total income (sales) less total expenses. Also called *profit* or *net income*.

patronage rebate or patronage refund — distribution of profits made by co-ops to members, proportionate to members' use or purchases from the co-op. Also called *patronage dividends*.

shares or membership shares — the investment units sold to co-op members. Shares are like stock in a traditional business but are not subject to the same regulations that govern stock in investor-owned firms. For that reason, most co-ops prefer to use the term "share" in reference to member investments.

steering committee — a committee responsible for guiding work. In this context, the steering committee is the organizing group responsible for researching and planning a new co-op. A steering committee is typically elected or selected by those interested in researching the feasibility of a new co-op.

RESOURCES FOR FURTHER ASSISTANCE

Center for Cooperatives University of California

One Shields Avenue Davis, CA 95616

Phone: 530-752-2408 **Fax:** 530-752-5451 **Web site:** http://cooperatives.ucdavis.edu **E-mail:** centerforcoops@ucdavis.edu

Cooperative Development Foundation

1401 New York Avenue, NW, Suite 1100

Washington, DC 20005

Phone: 202-638-6222 Fax: 202-638-1374

Web site: www.ncba.org E-mail: ncba@ncba.org

Cooperative Development Institute

277 Federal Street Greenfield, MA 01304

Phone: 413-774-7599 **Fax:** 413-773-3948

E-mail: coopdev@javanet.com

Cooperative Development Services

30 West Mifflin Street, Suite 401

Madison, WI 53703

Phone: 608-258-4391 Fax: 608-258-4394

E-mail: romahoney@msh.com

Mississippi Center

P.O. Box 22786 Jackson, MS 39225

Phone: 601-354-2750 Fax: 601-354-2777

E-mail: mscenter@mindspring.com

National Cooperative Bank Development Corporation

1401 Eye Street, NW, Suite 700 Washington, DC 20005-2204

Phone: 202-336-7700 Fax: 202-336-7804

Web site: http://www.ncb.com E-mail: tlewis@ncb.com

North Dakota Association of Rural Electric Cooperatives

P.O. Box 727

Mandan, ND 58554

Phone: 701-663-6501 Fax: 701-663-374

Web site: www.ndarec.com E-mail: pschaner@ndarec.com

Rocky Mountain Farmers Union Foundation

10800 East Bethany Drive

Aurora, CO 80014

Phone: 303-752-5800 Fax: 303-752-5810

E-mail: rmfu@aol.com

Rural Training and Research Center Federation of Southern Cooperatives

P.O. Box 95 Epes, AL 35460

Phone: 205-652-9676 Fax: 205-652-9678

E-mail: fscepes@mindspring.com

United States Department of Agriculture—Rural Business/ Cooperative Service

Stop 3250, 1400 Independence Avenue, SW

Washington, DC 20250-3250

Phone: 202-720-7558 **Fax:** 202-720-4641 **Web site:** http://www.rurdev.usda.gov/rbs/ **E-mail:** coopinfo@rurdev.usda.gov

University of Wisconsin Center for Cooperatives

230 Taylor Hall 427 Lorch Street Madison, WI 53706

E-mail: grinnell@aae.wisc.edu

Winrock's Arkansas Rural Enterprise Center

38 Winrock Drive Morrilton, AR 72110

Phone: 501-727-5435 **Fax:** 501-727-5242

Web site: www.winrock.org E-mail: information@winrock.org

ANNOTATED BIBLIOGRAPHY

Adams, Frank, and Gary B. Hansen. Putting Democracy to Work: A Practical Guide to Starting and Managing a Worker-owned Business. Berrett-Koehler and Hulogos'i, San Francisco and Eugene. Revised 1992.

A guide for setting up and running a worker cooperative. Includes the ICA bylaws for internal capital account worker cooperatives.

Baker, Kirk, and Anthony Nakazawa. *Organizing for Business as a Cooperative*. Alaska Cooperative Extension, University of Alaska, Fairbanks. 1995.

A primer for starting a co-op.

Baldwin, Van. *Cooperative Incorporation Sourcebook: Start-up Materials for Cooperatives Incorporating under the California Consumer Cooperative Corporation Law.* Center for Cooperatives, University of California, Davis. 1994.

Explains the steps to incorporation, includes sample documents.

——. A Legal Guide to Co-op Administration. Center for Cooperatives, University of California, Davis. 1996.

A reference manual for addressing issues relevant to board decision making, liability, membership, raising capital, patronage refunds, and other crucial topics.

Center for Cooperatives. Starting an Agricultural Marketing Cooperative. University of California, Davis. 1994.

A comprehensive guide to starting an agricultural marketing co-op.

Chapman, Harold, Doug Holland, and Sean Kenny, eds. *The Contemporary Director.* Cooperative College of Canada. 1986.

A handbook for elected officials of cooperatives, credit unions, and other organizations.

Deloitte & Touche. Writing an Effective Business Plan. Deloitte & Touche. No date.

An easy-to-read manual distributed by the accounting firm Deloitte & Touche.

Dunn, John, Stanley K. Thurston, and William S. Ferris. *Some Answers to Questions About Commodity Market Pools*. USDA document number EC-509. Washington, D.C.

A useful discussion of market pools for agricultural cooperatives.

Fry, Fred, and Charles R. Stoner. Strategic Planning for the New and Small Business. Upstart Publishing Company, Inc. Dover, N.H. 1995.

A thoughtful, easy-to-follow guide to small business planning. While not specifically geared to cooperatives, contains useful information about strategic planning.

Garoyan, Leon. *Information About California Marketing Cooperatives*. Center for Cooperatives, University of California, Davis. 1991.

Basic information about marketing co-ops.

Garoyan, Leon, and Paul Mohn. *The Board of Directors of Cooperatives*. University of California Cooperative Extension. 1976.

A basic reference book for co-op boards of directors.

Gray, Deborah, and Mahlon Lang. *Starting a Cooperative for Hardwoods and Special Forest Products*. Center for Cooperatives, University of California, Davis. 1995.

A handbook for groups interested in marketing cooperatives to handle special forest products.

Haberman, Gayle. Heaven Sent Housecleaning Cooperative: The Road to Self-management and Workplace Democracy. Heaven Sent, East Palo Alto, Calif. 1994.

Report on a cooperative established to help low-income women; includes training manual.

Henehan, Brian M., and Bruce L. Anderson. *Decision Making in Membership Organizations*. Department of Agricultural, Resource, and Managerial Economics, New York State College of Agriculture and Life Sciences. Cornell University, Ithaca, N.Y. June 1994.

Presents the findings of a study of decision-making practices of fourteen U.S. agricultural cooperatives.

Hill, Patricia, Mary Jean McGrath, and Elena Reyes. *Cooperative Bibliography*. University Center for Cooperatives, University of Wisconsin Extension, Madison. 1981.

An annotated and exhaustive guide to works in English on cooperatives and cooperation. It is somewhat dated and does not include marketing cooperative developments of the past 19 years.

McLanahan, Jack, and Connie McLanahan, eds. *Cooperative/Credit Union Dictionary and Reference*. Cooperative Alumni Association. 1990.

A useful reference to all aspects of cooperative activity.

National Cooperative Bank. Draft Articles and Bylaws. NCB, Washington, D.C. 1994. Guide to recommended language for co-op articles of incorporation and bylaws.

———. How to Organize a Cooperative. NCB, Washington, D.C. 1992.
Brochure and booklet based on "How to Start a Cooperative," a book published by the USDA, and adapted for various types of co-ops.

National Society of Accountants for Cooperatives. NSAC Resource Guide. NSAC. 1994.

A listing of resources specifically addressing financing, accounting, taxation, and legal issues applicable to cooperatives.

Rasmussen, Eric. Financial Management in Cooperative Enterprises. Cooperative College of Canada. 1975.

Overview of financing in cooperatives, including basics and details about feasibility studies, rate of return and break-even analysis, and cash management.

Roy, Ewell Paul. Cooperatives: Development, Principles and Management. Interstate Printers and Publishers. 1981.

A university textbook that comprehensively reviews the theory, history, and actual practices of co-ops of all types.

Sargent, Dennis J. Your Business Plan: Oregon Small Business Development Center, Eugene. 1990.

A detailed workbook for establishing a business plan.

Schaars, Marvin A. Cooperatives: Principles and Practices. University of Wisconsin, Madison. Revised 1980

An overview of cooperative structure and operational applications, mostly oriented toward agricultural and marketing co-ops.

- Sexton, Richard, and Julie Iskow. Factors Critical to the Success or Failure of Emerging Agricultural Cooperatives. Giannini Foundation of Agricultural Economics, University of California. 1988. An exhaustive study of the keys to starting a successful agricultural co-op.
- Swanson, Walden, and Mary Myers. Business Planning for Cooperatives: How To Write a Business Plan. Cooperative Development Services. Madison, Wisc. 1992.
 - Detailed guide to preparing a business plan for cooperatives.
- U.S. Department of Agriculture. Rural Business/Cooperative Service. *The Cooperative Approach to Crafts*. Cooperative Information Report 33. USDA, Washington, D.C. Revised 1992.
 - A comprehensive guide to starting a crafts co-op.
- ——. Co-ops 101. Cooperative Information Report 55, Washington, D.C. Revised 1997. Overview of key elements of cooperatives. Designed for agricultural cooperatives.
- ——. How to Start a Cooperative. Cooperative Information Report 7. USDA, Washington, D.C. Revised 1996.

Basic steps and issues involved in starting a co-op, primarily oriented toward agricultural and marketing groups.

- ——. How to Start a Cooperative. USDA, Washington, D.C. 1991.
 - A video that reviews guidelines and the steps involved in starting a co-op—geared toward marketing co-ops.
- -----. *Organizing and Conducting Cooperatives'* Annual Meetings. Cooperative Information Report 21. USDA, Washington, D.C. Revised 1983.
 - Guide to preparing for and holding an annual meeting.
- ——. *Understanding Cooperative Bookkeeping and Financial Statements*. Cooperative Information Report 57. USDA, Washington, D.C. 1998.

Designed for people with limited bookkeeping or accounting experience, the publication is a basic guide to understanding bookkeeping and financial statements. Material is most applicable to agricultural marketing cooperatives.

- ——. Working with Financial Statements: Guide for Cooperative Members. Cooperative Information Report 43. USDA, Washington, D.C. Revised 1996.
 - Provides an overview of the key things to examine in financial statements. Designed for agricultural cooperatives but applicable to marketing co-ops. Includes definitions and examples.
- Zovickian, Stephen. *Director Liability: An Overview of Director Liability of Agricultural Cooperatives*, 2d ed. Center for Cooperatives, University of California, Davis. 1999.
 - A brief overview of director liability issues. Designed for agricultural cooperatives but applicable to all co-ops.

Steps to Starting a Marketing Co-op is a user-friendly resource guid.

interested in organizing a cooperative to sell arts and crafts, finished textiles are wood products, agricultural produce and commodities, or other goods or services at marketing together through the co-op, members are able to get a better price to rich products or increase their access to larger markets. Marketing co-ops may also be implied in processing, assembling, packaging, or developing other methods that add value the product. A marketing co-op allows its members to focus their efforts on producting goods or services rather than finding buyers.

Intended for use in conjunction with legal and technical assistance, the manual presents an overview of the basic steps to the co-op organizing process, discusses the components of a feasibility study and business plan, and presents examples of contemporar cooperatives to illustrate the use of a marketing co-op for diverse product lines. References for further elaboration are listed at the end of each step. A glossary, an annotated bibliography, and a list of resource organizations are provided at the end of the document

The Center for Cooperatives was established by the California State Legislandin 1987 in response to the growing need for information and technical assistance. California's cooperatives. The Center carries out and promotes research about cooperation and provides education and development support to California's cooperatives.

Located on the University of California. Davis campus, the Center serves the public supporting housing, agricultural, consumer, child care, credit, and other cooperate drawing its teaching and research resources from both academia and the best cooperative business community.

For more information about the Center's programs and publications, please are a or call:

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