



COOPERATIVE DEVELOPMENT INSTITUTE

The Northeast Center for Cooperative Business



Co-op 101: A Guide to Starting a Cooperative

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8. Keys to Successful Cooperative Development

BUILDING COOPERATIVE LEADERSHIP AND ENTERPRISE IN THE NORTHEAST

PO Box 422, Shelburne Falls, Massachusetts 01370 • PH 413-665-1271 • FX 413-541-8300 • www.cdi.coop • info@cdi.coop



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Dear Inquirer,

Greetings from the Cooperative Development Institute. Our mission is to build a cooperative economy through the creation and development of successful cooperative enterprises and networks in diverse communities in Massachusetts, New Hampshire, Vermont, Connecticut, Maine, Rhode Island and New York.

Our vision of a cooperative economy is of an inter-dependent dense network of enterprises and institutions that allow us to meet our needs through principled democratic ownership, and that care for community, combat injustice and inequity, and promote conscious self-governance. The cooperative economy is embedded within and helps create a cooperative society aware of its place in a cooperative ecology.

Our organization provides education, training and technical assistance to existing and start-up cooperatively-structured enterprises in all business sectors: food, housing, energy, agriculture, arts, health, forestry, fisheries, retail, service and more.

CDI collaborates with numerous other actors to work toward this vision. Our particular role is to provide direct technical assistance services and training, communicate about the multitude of paths individuals and groups can take toward the vision, and convene meetings that spark further collaboration and development. We help bring the resources and energy together to produce creative, lasting responses to our real human needs.

Following is a *Co-op 101 Start-Up Packet*, a set of materials about cooperatives and the start-up process. Please review the packet materials and complete the Online Request for Assistance form. Completing this form will help us determine how we can best support you in your venture.

Please feel free to call us with any questions or concerns and we will be happy to assist you. We wish you the best of luck with your endeavors.

Sincerely,

Noémi Giszpenc
Executive Director

BUILDING COOPERATIVE LEADERSHIP AND ENTERPRISE IN THE NORTHEAST

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CDI's Mission

Cooperative Development Institute is the Northeast's center for cooperative business education, training and technical assistance.

Our mission is to build a cooperative economy through the creation and development of successful cooperative enterprises and networks in diverse communities in New England and New York.

Our organization provides education, training and technical assistance to existing and start-up cooperatively-structured enterprises in all business sectors: food, agriculture, housing, energy, arts, health, forestry, fisheries, retail, service and more.

Visit www.cdi.coop to find:

- How to Start a Cooperative
- Online Request for Assistance

Or contact us: info@cdi.coop
877-NE COOPS
413-665-1271

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The Northeast's Center for Cooperative Business

- ❖ Starting a Co-op Business, Concept to Launch
- ❖ Organizing Resident-Owned Communities
- ❖ Co-op Models for Local Food Enterprises
- ❖ Worker Buy-outs, Succession Plans



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CDI Services

Cooperative Development Institute staff specialize in helping people work together to **plan and launch** a cooperatively owned business. We help existing privately held businesses **convert** to ones owned by their employees or the consumers of their products and services, we help **start-up** cooperatives, and we support **existing** cooperative businesses.

We offer 5 hours of free, pro bono assistance, followed by fee-based services. Some projects may be eligible for reduced-rate services under a USDA Rural Business Cooperative Development Grant. And for others we can assist in obtaining funds to support your development process.

CDI's staff and consultants bring experience and insight to all aspects of starting and running a cooperatively owned business:

- organizational development
- feasibility assessment
- business planning
- financial systems
- accounting & bookkeeping
- strategic planning
- market research
- marketing plans
- performance evaluation
- communications
- board training
- conflict management
- inclusion and diversity

RESIDENT-OWNED COMMUNITIES

Hundreds of manufactured home parks throughout New England provide housing to thousands of families. Cooperative Development Institute's New England Resident-Owned Communities program (NEROC) helps residents of these parks to purchase and manage these communities as not-for-profit, democratic co-ops.



CDI's NEROC helped 32 residents take control of Evergreen Realty Co-op in Warren, MA.

The program provides the necessary technical assistance, financing, training, and long-term commitment for the resident-owned communities to achieve long-term sustainability, self-sufficiency and economic prosperity. NEROC uses the highly successful model pioneered by the New Hampshire Community Loan Fund (NHCLF) and taken to national scale by ROC USA™.

CDI Staff: Lynda Brushett, Andy Danforth, Kathleen Fekete, Noémi Giszpenc and Jeremiah Ward

STRUCTURES & VALUES MATTER

A cooperative is a business that is

- Owned by its members
- Democratically controlled by members
- Operated for the benefit of members

Cooperatives are guided by the following values, as defined by the International Cooperative Alliance:

self-help, self-responsibility, democracy, equality, equity, and solidarity.

Cooperative members believe in the ethical values of *honesty, openness, social responsibility, and caring for others.*



North Country Farm Fresh Cooperative picks up produce from small local farms in northern NH and delivers to Coos County restaurants.

Starting and running a business with a group of people, to meet your shared needs, is a unique and gratifying experience. CDI has the expertise, experience, and networks to support you in accomplishing mutual goals.



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What is a Cooperative? International Cooperative Principles

Definition

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned democratically controlled enterprise.

Values

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

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 their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.

3. Member Economic Participation — Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence — Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training and Information — Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of cooperation.

6. Cooperation among Cooperatives — Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community — While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.



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What is a Cooperative? Who Benefits and How

Cooperatives are:

- User-owned – The people who own and finance the cooperative are those who use the cooperative.
- User-controlled – The people who control the cooperative are those who use the cooperative.
- User-benefiting – The cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

So your first job is to decide who are the members and what benefits do they want from this cooperative.

Co-ops are owned by:

- Consumers
- Producers/farmers/fishers
- Workers
- Businesses/organizations
- Municipalities/government
- Other co-ops

Cooperatives bring the following types of benefits to their members:

- Consumer co-ops – provide retail products and services for their customer members
- Purchasing co-ops – purchase products and services in bulk to reduce or share costs for individual or organizational members
- Marketing co-ops – build markets for members' products and services, improve member bargaining power, facilitate delivery of products to market, and improve product quality
- Value-added Processing Co-ops – add value to members' products to increase members' share of retail mark-ups
- Worker co-ops – provide jobs for their members and services for their communities

Six Reasons Why You Might Want to Start a Co-op:

- Cooperatives exist to meet their members' needs. Their focus is on service to members, not on bringing a return to investors.
- Cooperative members are not penalized for working together in a cooperative business under US Tax Code; therefore many cooperatives enjoy tax advantages.
- Cooperatives are owned and controlled by their members. They help keep resources in the members' community and are guided by members' values.
- Decisions made democratically by the membership provide a strong direction that is supported across the organization.
- Profits are returned to members so members benefit from the business they do with the cooperative.
- Cooperatives contribute to the economic stability of their communities.

Four Reasons Why You Might Want to Think Twice Before Starting a Coop:

- Sometimes cooperatives have difficulty gaining access to the capital they need without being able to bring on investors who have a seat on the board.
- Cooperatives need to invest time and money in supporting their democratic process – educating members about key issues, holding meetings, and responding to member concerns. This can be expensive and time consuming.
- Sometimes there are legal limits to the scope of operations or membership for a cooperative.
- Cooperatives are only as good as their members ask them to be. When members stop investing time and energy, cooperatives can reduce the benefits they provide to their members.

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Starting a Cooperative Development Stages

Stage One: Exploration (3-6 months)

Explore your new business idea.

	You will need to...	CDI can provide...	By the end of this stage you'll have...
Organizational Development	Form an Organizing or Steering Committee with people who represent the cooperative's potential members. Identify your mission and core values.	Meeting facilitation.	A committed group of people who agree on what they want this business to sell to whom.
Business Development	Define your key business concept – What products and services might the co-op supply that could make a significant economic difference in the lives of its members? Create a project development plan and budget. Conduct Market Research to determine the need for your cooperative's products and services and complete your feasibility analysis to see if you have a viable business idea.	Meeting facilitation; market research and feasibility analysis or help hiring and managing a consultant to assist you; lessons learned by other projects and guidance on project plans, market research, and feasibility analysis.	Market research that shows there is a large enough market and sufficient product to sell that the cooperative will be financially viable and make a significant economic contribution to its members; A clear plan and budget for each stage of development.
Member Development	Share information with potential members about your business idea.	Guidance on member education materials; help creating print resources for potential members informing them about your project.	Growing interest from potential cooperative members.
Fund-raising	Secure funds for Stage One and begin fundraising for Stage Two.	Help to identify sources and raise funds.	Funds raised to cover the cost of development for Stage One and some of Stage Two: \$0-\$10,000

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Stage Two: Business Planning (3-6 months) Figure out how to make your business idea a reality.

	You will need to...	CDI can provide...	By the end of this stage you'll have...
Organizational Development	Set up your Founding Board, incorporate your cooperative, and adopt Bylaws that describe how you will work together.	<p>Trainings for your founding board;</p> <p>Help creating your legal documents and hiring a lawyer to review them;</p> <p>Lessons learned from other projects and sample board policies and legal documents.</p>	A legally incorporated cooperative with a seated board.
Business Development	<p>Create a Business Plan and Marketing Plan that describes how you will launch your business, what it will cost, and where you'll get the money.</p> <p>Raise money (equity) from members and get a loan to launch your business.</p>	<p>Help creating your Business Plan and Marketing Plan or hiring and managing a consultant to assist you;</p> <p>Lessons learned from other projects and sample business plans.</p>	A Business Plan and Marketing Plan showing how the cooperative will be launched.
Members	Recruit members for your cooperative.	Help with outreach to potential members.	Enough members and money to launch your cooperative.
Fund-raising	Secure development funds for Stages Two and Three.	Help to identify sources and raise funds.	<p>Funds raised to cover the cost of development for Stage Two:</p> <p style="text-align: right;">\$\$10,000-\$30,000</p>

Stage Three: Cooperative Launch (2-6 months) Get the business set up and ready to open.

	You will need to...	CDI can provide...	By the end of this stage you'll have...
Organizational Development	Set up office and hire staff.	<p>Start-up accounting, communications, and support staffing;</p> <p>Sample job descriptions and personnel handbooks;</p> <p>Trainings for management, staff, members and board.</p>	An office set up and staffed.
Business Development	<p>Contract for and market products and services.</p> <p>Presell members and/or customers products and services.</p>	Lessons learned by other projects; sample marketing materials.	<p>Initial products and services ready to offer;</p> <p>Customers signed up for products and services.</p>
Members	Orient new members to their roles and responsibilities.	Sample Member orientation materials.	Members educated about their rights and responsibilities as co-op members.

Stage Four: In Business

Open the doors and start providing goods and services.

	You will need to...	CDI can provide...	By the end of this stage you'll have...
Organizational Development	Provide staff and management education and engage in strategic planning.	Meeting facilitation; Communications support; Financial systems support; Trainings for management, staff, members and board, including on conflict management; Referrals to co-op professionals and peer supporters; Connections to other co-ops in the Northeast and beyond.	A viable business, up and running, bringing economic benefit to its members and functioning in a democratic, responsible manner.
Business Development	Provide products and services in response to member needs; engage in sales and marketing and ongoing business development.	Member/customer surveys; Help with marketing; Suggestions for expansion, diversification, spin-offs, etc.	
Members	Engage in member and board education.	Training; Sample member education materials, news items, etc.	

And take time to celebrate and acknowledge your accomplishments!



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Developing your Cooperative

Articles of Incorporation, By-Laws, and Membership Agreements

Answer these questions before you consult with an attorney to help you design your legal documents.

Building Shared Vision, Mission, Values and Strategy

- Who are the members of this cooperative? What needs of theirs is the cooperative designed to meet?
- List the assumptions you hold.
- Identify the blocks for moving forward.
- List the core values/principles that guide the cooperative.
- How do you want the world to be different because the cooperative exists?
- What is the vision you hold for this cooperative?
- What do you want the cooperative to accomplish? What is its mission?
- Who will serve as the start-up board of directors, overseeing the development activities?

Membership

- Who is eligible for membership?
- What equity will members contribute?
- Will members each have one vote? Or will there be weighed voting?
- Are there financial obligations for voting?
- Are all members treated the same? Or are there classes of members?
- How can a member terminate his/her membership? How can the coop terminate a member's membership?

Board

- Who is eligible to serve on the board?
- What are their duties?
- How many seats should there be?
- Will you have board member from outside the organization?
- How long will a board member serve?
- How are board members elected? Removed?
- Are they paid? Are expenses reimbursed?

- How will vacancies be filled?
- How often will the board meet? What quorum is required? What meeting notice is required?
- Will there be standing committees of the board? If yes, what are they and what are the functions?
- Will there be officers? If yes, what offices, terms, duties, selection process?

Capital Structure

- What will your capital structure be? (Will you issue shares of stock? Membership/Common? Preferred? How many? At what value?)
- What are the rights and responsibilities of each stockholder?
- Will shares earn dividends?
- What will the redemption procedure be?

Patronage Dividends

- What is the basis for distributing patronage dividends to members?

Membership Meetings

- How often will members meet? Who can call a special meeting? What notice is required? What quorum is required?
- What issues will members decide?
- How can members vote? By proxy, by mail, electronically?
- How will the by-laws be amended?

Membership Agreements

- What will members receive?
- What will members agree to give?
- How will money change hands?
- How will quality be evaluated?
- How will the agreement be enforced?
- How will the agreement be terminated/renewed?

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Developing a Lasting and Effective Committee¹

An effective Steering Committee will be the driving force behind a well-organized cooperative development effort. It will also be an important organization for carrying the effort beyond the planning phase. There are a few basic yet often overlooked methods for turning a group of volunteers into an effective, enduring organization.

Select an effective chairperson

The ideal chairperson is a good meeting facilitator, skilled at delegating tasks and monitoring progress. The chairperson should be a respected member of the community, able to serve as a spokesperson for the planning effort, and skilled at building coalitions and collaborative efforts.

Build committee skills

Community projects can falter when a key individual leaves. Share tasks and cultivate skills to ensure that no one person is indispensable.

Establish set meeting times

Frequent meetings at regularly scheduled times give the committee continuity and stability. Keeping your meetings at the same time and place will encourage consistent attendance.

Communicate, communicate, communicate

Sending out agendas, meeting notes, and background materials keeps members informed and prepared for upcoming meetings. These mailings also lend professionalism to your efforts.

Make every meeting count

At each meeting, have an agenda and stick to it. See that the group makes decisions to move forward and that members leave with assignments to be completed within specific time frames.

Keep meetings concise and to the point

The people you will want on the steering committee are often the busiest people in town. Use their time wisely. Start and end meetings promptly. Keep meetings less than one hour unless participants agree to a longer meeting. Be aware of discussions that may be more appropriate for a longer time.

Reinforce and celebrate the spirit of collaboration

If multiple groups are involved in a collaborative cooperative development effort, then it's essential that all groups receive credit for their participation in the coalition. Publicize the diversity of people involved and make sure that single individuals or groups do not get credit for what is a collaborative endeavor.

¹ Adapted from *Community Energy Workbook: A Guide to Building a Sustainable Economy*, by Alice Hubbard and Clay Fong. Rocky Mountain Institute: Snowmass, CO. 1995. Pp. 22-23.

Elements of Project Success



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A lot of elements go into a successful project. Here are some that have been identified by researchers as the most critical, in descending order of importance. Every “yes” answer to the questions below makes success likelier.

Member involvement

This is by far the most important element. Are the co-op’s members those who will benefit most from the business? Are they involved early and often in the process? Are lines of communication open, allowing a quality relationship? Is involvement easy? Have you talked to them to identify their needs?

Leadership

Do the project’s leaders have a strong interest in the successful outcome of the project? Yet, is failure acceptable? (“Yes” is the better answer!) Are key leaders in the group and in the community willing and available to participate in the project? Do leaders have the skills, credibility, experience and capacity to play a leadership role in the project’s development? Do leaders see a well-defined plan?

Clear vision and business case

Do you have a concise vision of the project in the short-term, mid-term, and long-term? Do you have an operations plan that gets you from square 1 to the end, and can you revise it? Have you thought of what can go wrong and how to address it? Will the end result be worth the investment required? Do you have milestones to determine when the project has succeeded?

Proper planning

Have you identified the problem that the project will solve? Have you outlined possible solutions to the problem? Have you identified the right people to carry out the project? (Name names and let them know what role you’d like them to play, and make sure they are available.) Do you know what exact functions the co-op will need to carry out? Does your plan have attainable milestones and prioritization? Don’t try to do too much in one project!

Setting realistic expectations

Has everyone in the project seen an outline of an attainable project? Have you sorted needs from wants, and reduced the wants that the project addresses? Have you developed smaller project milestones? Can you manage change? Will members be

able to experience early on how the co-op will function for them?

Providing a sense of progress

In most cases, 20% of a co-op’s activities will provide 80% of member benefits. Are you concentrating on that crucial twenty percent? Have you looked at the big picture and broken the project down into manageable parts? Are there time limits set for project milestones? Can you and other members get a clear sense of what it will be like to have the co-op? Are you measuring and reporting progress?

Competent, engaged workers

Have you identified what skills and experience are required? Have you recruited the right people from within and outside your circles? Do you have a well-structured and continuous training program? Are workers well compensated? Are they focused on the project and willing to see it through?

Project ownership

Have you clearly defined roles and responsibilities for every member of the project team? Does your organizational model support that accountability? Does everyone know their role? Will each person benefit equitably from the project’s success? Is everyone committed?

Clear vision and objectives

Have you shared the vision with all people and groups affected by the project? Are the objectives aligned with overall goals of the group? Are the objectives achievable? Are the goals measurable? Do you have honest and continuous sanity checks?

Hard working, focused workers

Are workers personally motivated to do the work? Are they concentrating on measurable products of their work? Does each member feel part ownership of the project? Does each individual see their role as part of a team that works well together? Are you building confidence in the team, with a proper plan and attainable goals and milestones?

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Keys to Successful Cooperative Development

General Guidelines for Success

- Keep your focus
- Keep members informed and involved
- Build strong member leadership and commitment
- Set realistic goals and assumptions
- Conduct businesslike meetings
- Follow sound business practices
- Base decisions on market research rather than opinions
- Create a comprehensive business plan
- Use advisors and committees effectively
- Forge links with other cooperatives
- Identify and minimize risks
- Maintain honest, open communications
- Invest in member, board and staff education
- Hire competent management
- Raise sufficient capital
- Establish a realistic market entry strategy
- Make sure you have enough product to sell to a large enough market to make money

The project starts with:

- A compelling need
- A strong champion
- A clear vision
- A good business idea

The founding board has:

- Business acumen
- A diversity of skills
- Integrity
- Interested in the most viable business possible
- Commitment to the project
- The ability to govern the co-op

Project planning includes:

- Thorough market understanding
- Honest market research
- Effective business plan
- Due diligence
- Exit strategy
- A conscious transition from development to operation

Founding members are:

- Committed to the project
- Motivated by a common vision
- Flexible thinkers

From a financial perspective, the project has:

- Adequate capitalization
- Early member financial commitment
- Financial feasibility
- A commitment to use money wisely
- Adequate financial resources

The project has:

- Strong management
- Bylaws that spell it out
- Fortuitous timing
- Adequate human resources
- The ability to learn from failure
- A commitment to continuous communication with members, board, management and consultants
- A commitment to education and training
- Quick buy-in and the ability to build on success
- A skilled co-op development facilitator

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