

STARTING A COOPERATIVE – ONE STEP AT A TIME

– a New Zealand Cooperatives Association info sheet

Member participation
in decision making activities
and a sense of cooperative
spirit are vital for success

Cooperatives are formed in response to an economic need, such as to provide marketing, processing, bargaining, manufacturing, and purchasing services not currently available, or available only at excessive cost.

If you are interested in forming a cooperative, learn all you can about the legal, economic, and financial aspects of a cooperative business. Careful planning increases the chances of success.

Why a group of people or businesses start cooperatives

- to improve bargaining power
- to reduce costs
- to obtain products or services
- to create new and expand existing market opportunities
- to improve the qualities of the products or services
- to increase income.

GETTING A COOPERATIVE OFF THE GROUND

Step 1

Is there an economic need?

YES – proceed to step 2

NO – stop cooperative development

Determine the economic need

A cooperative is organized in response to a specific problem or opportunity. The idea is often initiated by a small group that meets to discuss the need. The meeting should focus on the economic need and the potential use of a cooperative as a solution. Discussion topics should include:

- what information is readily available about the perceived need?
- could a cooperative effort address this need?
- what information about cooperatives is available?
- who can serve as an advisor to the group?
- who should be invited to a meeting of potential users?
- how should potential users be contacted?

If a cooperative seems to offer a solution, a large meeting of interested potential users may be planned.

Step 2

Can a cooperative offer a solution?

YES – proceed to step 3

NO – consider another type of organisation

Hold an initial exploratory meeting

A meeting of potential members or users should be called to decide if there is sufficient interest to support a cooperative, the meeting date, time and place being publicised in advance. The initial group should develop an agenda and select a chairperson to conduct a meeting.

Among the items to be discussed are:

- what is the problem
- possible solutions
- cooperative terminology and principles
- advantages and disadvantages of a cooperative
- what financial and other commitments are expected of users or members
- cooperative organisation and feasibility study analysis process

Allow time for potential members to ask questions. If the group votes to continue with more detailed study, a steering committee should be selected.

Select a steering committee

Steering committee members should have an interest in the cooperative and sound business judgement. They often become the cooperative's incorporators and may serve as its first board of directors.

The committee has a two-part job:

- deciding the feasibility of the cooperative – will the proposed cooperative succeed and will it be valuable to members?
- preparing a specific, detailed business plan for the proposed cooperative.

The committee should consult specialists in the areas of law, finance and cooperative business operations. Two essential studies must be initiated: a potential member survey, and a market analysis or supply analysis.

Step 3

Is there interest from potential members?

YES – proceed to step 4

NO – stop development

Conduct a member survey and market or supply analysis

The steering committee must take steps to learn all it can about the cooperative's potential members and what a cooperative can do for them. The survey should explore four areas:

• members' needs

The cooperative is formed and operated for the sole purpose of meeting members' needs.

• anticipated business volume

The cooperative must have some assurance of sufficient volume to operate as a business and to plan for facilities and needed equipment.

• location and business or service characteristics of prospective members

Where, how and when the cooperative delivers is a prime consideration.

• opinions of members

How do potential members feel about cooperatives and participation in one?

The market or supply analysis will determine if the proposed cooperative has an economic role in the market. The analysis will identify which activities are appropriate, business volume and financial capabilities of the potential cooperative members.

Second exploratory meeting

This meeting reviews the results of the member survey and the market or supply analysis. Based on the information presented, participants vote either to continue or abandon the project. If they continue, the next step is to prepare a business plan and draft legal documents.

Potential members may be asked to invest money at this point to demonstrate their commitment to the cooperative and to cover some of the organisational costs.

Step 4

Is the plan for a cooperative feasible?

YES – proceed to stage 5

NO – stop development

Prepare a business plan

Every business needs a business plan. The committee should arrange for the completion of an in-depth business plan prepared by a professional who is familiar with cooperative organisation. The plan defines the cooperative's operations and other structural issues before the cooperative's organisation is finalised.

Draft legal papers and incorporate

The constitution states the purpose and scope of the cooperative business and gives the cooperative a distinct legal standing.

The rules will state how the cooperative will conduct business and must be consistent with both the law and its constitution. A lawyer should be consulted on these and other legal documents, such as a share prospectus and membership or marketing agreements.

Third exploratory member meeting

At the third exploratory meeting, potential members review the work and recommendations of the steering committee, including the constitution, rules and any adjustments made to the business plan.

Support for the cooperative should again be evaluated by a vote on whether or not to form the cooperative. If affirmative, the incorporators file the articles of incorporation with the Companies Office.

First annual meeting of the cooperative

At the first meeting of the cooperative, members have two very important responsibilities. They are to:

- approve the constitution
- elect the board of directors

Steering committee members are often board candidates, but other members may also be elected to these leadership positions.

First board of directors meeting

The first meeting of the board of directors should focus on selection of board officers, committee appointments and carrying out the business plan.

Additional items include arranging debt capital, conducting a membership drive, establishing a job description for a manager and conducting a search for a manager.

Step 5

Will members commit capital and business volume?

Are resources available?

YES – begin operations

NO – go back to square one

Acquiring capital

The board of directors is responsible for arranging adequate capital. Capital may be raised by members purchasing shares (equity) and borrowing funds (debt).

Members must invest or pledge sufficient capital in the business to demonstrate commitment to the cooperative's success. Exact amounts will depend on activity and on lender requirements.

Projected cash flow schedules and financial statements from the business plan are important in determining capital needs and arranging for debt capital.

Hiring a manager

One of the most important duties of the board of directors is to hire a qualified manager who is responsible for day-to-day operations.

Hiring employees, acquiring facilities, beginning operations

The manager hires capable employees and advises the board on what facilities and equipment to acquire, within the budget and operation guidelines established by the board.

Important factors for cooperative success

Experience shows that a newly organised cooperative's chances for success can be improved by:

- clearly identifying the economic need
- reaching agreement on the cooperative's mission
- developing good leadership
- gaining the commitment of members to do business with the cooperative
- following sound business practices.

A cooperative is a unique form of business used by people and businesses for their mutual benefit.

Whatever its purpose, starting a cooperative requires considerable time, energy and commitment by potential members to finance and use the business and select knowledgeable directors who will hire a competent manager.

WHERE TO GET HELP

New Zealand Cooperatives Association

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phone 04 384 4595 • email nzca@nz.coop • www.nz.coop

www.business.govt.nz

A website to help people start and develop their own businesses

BIZinfo

A free business information service to help grow a business through support programmes, mentors and assistance with special information

phone 0800 42 49 46

This has been adapted from a USDA info sheet.