Cooperation & Cooperatives

Cooperative - a type of business that is owned and controlled by its members or the people who use its products and services

Cooperatives differ from other businesses in several important ways:

- They are owned and controlled by member or users.
- They return surplus revenues to members based on use, not investment.
- They are motivated by owner member needs, not profit
- They pay taxes on income kept within the cooperative, not on revenues distributed to members.

How Cooperatives Work

Individuals who share common goals around the purchase, marketing or value-added processing of goods or services form cooperatives.

- Members provide part of the necessary start-up capital through buying-in, or paying membership fees.
- Members elect a board of directors, which is responsible for representing member interests and structuring a business plan that meets member needs.
- The board of directors hires a manager to implement the business plan, and who hires and trains necessary employees to staff the cooperative.
- Members commit to utilizing the cooperative for their purchase or sale of relevant goods or services.

After paying necessary costs for operating the cooperative, surplus profits are distributed to members at the end of each year. These refunds, distributed proportionately to member use, are called **patronage refunds**.

The cooperative can access further capital for expansions and improvements by retaining part or all of these patronage refunds. If a cooperative cannot develop a successful business enterprise, member liability is typically limited only to what each individual member invests.
Why Form a Cooperative?
There are many potential benefits. Because the users of the cooperative are also the owners, the cooperative is aware of its customers’ needs and demands and can better protect members’ interests. By joining together, members may improve
- Bargaining power,
- Access to services unavailable to individuals, and
- Decrease costs by achieving economies of scale.

The profit sharing mechanism of cooperatives, combined with economies of scale that reduce costs for individuals, have the potential to increase income of cooperative members, or reduce incurred costs for necessary services.

Natural Resource Cooperatives
When many members pool together their resources, they are often able to achieve better bargaining power and access new markets because of the increased volume of products of similar grade. These economies of scale are especially important for natural resource cooperatives in circumstances where land may be fragmented and individual producers cannot attract buyers on desirable terms. Natural resource cooperatives may require members to contribute knowledge, equipment, marketing opportunities, and often land or products from land. Under the condition of contributing land to a cooperative, members share in benefits and costs according to invested acreage. A strong knowledge base is central to effective natural resource cooperatives, as is flexibility to meet member needs, which may demand high-startup costs for specialized equipment or certification. Additionally, ensuring that a market exists for the products is integral to the success of natural resource cooperatives, especially if cooperatives produce sustainable certified products that are often more costly.

References & Additional Resources

- **Cooperative Development Services** – Bob Olson. 400 Selby Avenue, Suite Y. St. Paul, MN 55102. (651) 265-3682. bob@foodalliance.org.

- **United States Department of Agriculture - Rural Development** – Thomas Leach. 7118 Clearwater Road. Baxter, MN 56425. (218) 829-5965. thomas.leach@mn.usda.gov

- **National Cooperative Business Association**. Available at: www.ncba.coop

- **Center for Economic Development - University of Minnesota Duluth**. Elaine Hansen—Duluth Technology Village. 11 East Superior Street, Suite 210. Duluth, MN 55802. 218) 720-4339. ehansen@umdced.com