Defining Cooperatives

What Is Cooperation?
Cooperation is a concept that was probably developed in pre-historic times. Whenever people associate for mutual benefit, we have cooperation. Many examples of cooperation have been used throughout history. Quilting bees, corn shuckings, barn raisings are all examples of cooperation.

Today, cooperation is needed more than ever. An individual wants to travel to a distant city. She has a car and advertises on the community bulletin board for a rider who wants to travel to the same city at the same time and can buy the gas. Both will benefit. The owner of the car and the rider can use the car along with the gas, share driving and they both reach their desired destination. By cooperating, it is not necessary that either person contribute everything to the job in order to benefit from the results.

What is a Cooperative?
A cooperative is a group of people who have joined together to control their own destiny.

A cooperative is one of the best ways for a large number of people to own a business. Many people do not have enough money to start businesses by themselves. But if they pool their money and ideas, they can organize themselves cooperatively into many businesses.

A cooperative gives people a way to keep the money they make in their own community rather than to another city, state or country.

In cooperative ventures we were making business decisions at an early age - decisions that white males were generally making when they got into their late fifties and sixties. In the United States, there are four types of businesses - individual proprietorship, partnership, corporations and cooperatives. All successful businesses are based on four ingredients - land, labor, capital and management. Even in our 20's, as owners of cooperatives, we learned finance and management. We had to read balance sheets and understand bonding and basically the different financial arrangements necessary to capitalize the needs of the particular business we were involved in.

Wendell Paris
First Director of the Federation of Southern Cooperatives
Training & Research Center
Only when people begin to control their own businesses will they be able to have some control over what happens to their community and country.

A cooperative is a business that is organized on a voluntary basis. It is owned and controlled by its members who are generally the major users of the business. The members share in the benefits and risks of the business which is directly related to how much they use the business.

Cooperatives are established to serve a specific need. Once a common need is recognized by a group of individuals, the basis for organizing a cooperative is clear. After the business has been established, an effective manager can help the membership to recognize additional areas of need and grow to meet those needs.

Persons that are interested in community development are especially attracted to cooperatives as a mechanism for that process.

**Members are the Cooperative**

Each member has one vote in controlling the policies of the business and earnings are based on the amount of trade that each member does at the cooperative rather than the amount of money invested.

Members support the co-op by doing business with it and remain loyal to it.

Members also support the co-op by investing in it. It takes money for the co-op to grow. When members put money into the co-op they help to build the business and at the same time invest in their own future.

Members support the co-op by encouraging others to join.

Members support the co-op by taking an interest in it. Co-op members should keep themselves informed of the activities and of important decisions that are made.

**What Cooperatives Do**

Cooperatives usually perform any one or a combination of three kinds of service functions, but with varying emphasis. They are generally classified by their major activity.

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### Significant Dates in Co-op History

1752 - The first successful cooperative was organized in the United States when Benjamin Franklin formed the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire — the oldest continuing cooperative in the U.S.

1844 - The Rochdale Equitable Pioneers Society was established in Rochdale, England. These pioneers wrote down a set of principles to operate their food cooperative that contributed to their success and spread to other cooperatives around the world. The successful establishment of the cooperative in Rochdale marks the beginning of the modern cooperative era.

1865 - Michigan passed what is believed to be the first law recognizing the cooperative method of buying and selling.

1895 - The International Cooperative Alliance (ICA) was established. Today over 200 national cooperative organizations representing 92 nations belong to ICA, the apex organization of all national cooperative movements. The ICA aims to promote cooperative development and trade worldwide and boasts an individual membership of more than 750 million people.

1916 - The first national cooperative association was formed — now known as the National Cooperative Business Association.

1922 - Congress passed the Capper-Volstead Act allowing farmers to act together to market their products without being in violation of antitrust laws.

1920s & 30s - Congress established governmental agencies — the Farm Credit Administration (1929), the National Credit Union Administration (1934) and the Rural Electrification Administration (1936) — to provide loans and assistance to cooperatives.

1978 - Congress passed the National Consumer Cooperative Bank Act, establishing the National Cooperative Bank.

2000 - In 2000, NCBA brought co-ops to the cutting edge of technology by successfully lobbying the Internet Corporation for Assigned Names and Numbers to create a new top-level Internet domain—.coop—exclusively for cooperatives. The .coop registry, launched in January 2002.

*From the National Cooperative Business Association*
(1) Marketing Cooperatives market products members produce - milk, fruit, vegetable, grain, livestock, rice, poultry, cotton, sugar, cane, sugar beets, and many specialty products. Marketing includes assembling, processing, and selling raw or processed products in retail or wholesale markets for members. Several cooperatives market on a regional or national basis.

(2) Purchasing Cooperatives, often called farm supply or supply cooperatives, provide farmers with many production supplies for their farm operation. Major items include feed, fertilizer, petroleum, seed, farm chemicals, as well as building materials and farm equipment. Many local cooperatives have formed regional cooperatives to obtain or manufacture supplies. Purchasing Co-ops cut out the middle man by buying directly from the wholesaler. The savings are passed on to the members.

Farm supply cooperatives provide the farmer with seed, and farm equipment. A petroleum cooperative provides people with gas, oil, tires and other supplies.

One thing to remember is that it is difficult for a cooperative to give credit to its members. This is especially true for low-income co-ops. The reason is that the co-op operates on a low margin and it doesn’t have a lot of extra cash on hand and why the co-op encourages members to buy on a cash basis. Consumer goods can also be purchased wholesale by cooperatives in a manner similar to a buying club. Items could range from wearing apparel to household furnishings.

As we view cooperatives as a vehicle for providing services to consumers, let us not overlook the value of the cooperative to the producer. The cooperative can provide the producers with essential marketing services as well as other operating needs. Each cooperative in this category is essentially unique. The goods produced, the environment, and the size of the organization may vary, but the underlying cooperative principles are still embraced.

Michael McNair
Marketing Specialist
Indian Springs Farmer’s Cooperative

We need to encourage record keeping because with records you can maintain your financial history throughout the crop season. From a cooperative perspective it’s good to be able to compare your records from the various quarters and then to speculate why there might be differences or fluctuations...see where you are or how far you’ve progressed.

Cooperatives vs Investment Oriented Corporations

Cooperatives

• A cooperative benefits its members
• Owned by the members who use the products or services
  • The members decide how the co-op is run
  • Used by members-owners
• The goals are generally services to and for members and financial well being of the cooperative and its members
• Savings and benefits are passed on to the members depending on the amount of business they do with the co-op

Corporations (Investment oriented)

• Private businesses operate to make a profit. These profits go to make a few people very rich.
  • Owned by stockholders
• Stockholders or directors determine policies
• Generally used by non-owner customers
• The goal is generally profit rather than service

(3) Service Cooperatives provide services related to the production and marketing of farm commodities, or common needs in other areas. These other services include credit, electricity,
telephone, insurance, irrigation, artificial breeding, plant and animal research, pest management, grove care, forest management, housing, credit unions and many more.

The new cooperative will have a better chance to survive if it begins by marketing a few products, selling a few supplies, or providing a limited range of services in a well-defined geographic area. As members and management gain experience, new products and services can be added and its operating territory expanded.

The purpose of the co-op is not to make profits but to provide services and benefits to its users. The co-op serves its members by providing them with quality products at fair prices.

Any money left over at the end of the year is surplus, not profit. The surplus belongs to all members because they have helped to make it. It can be used to expand the co-op, to hold as an investment for expansion or to give back to the members according to how much they used the co-op’s services the last year.

People who own their own business would not cheat themselves. They want a business that gives them services and savings. The co-op managers and employees are hired by the Board of Directors to provide these services to the members.

**Multi-Service Cooperatives**
A cooperative could expand to provide more than one service to its members.

For example, a farmer marketing co-op can also set up a credit union. A small deduction can be made from a member’s sales to go into his or her savings account.

Many members of low-income co-ops need better housing. Since co-ops are people who are organized to solve their own problems, the co-op may help develop self-help cooperative training.

The cooperative can also help provide day care centers and recreational programs.

It’s the idea that sparks the cooperative and it produces longevity for the co-op. It’s a situation where people recognize that they have the same concern...the same problems are able to generate the same vision as to where they want to go. The co-op will last then. If you don’t have that foundation for a co-op it probably won’t last. If you build your house on sand it will waste away but if you build your house on rock it will stand. When the winds come, when the floods come, when the sun burns real hard and heavy the foundation will always be there - so you must build a co-op on a solid foundation.

Melbah Smith,
Director Mississippi State Office, Federation of Southern Cooperatives/Land Assistance Fund