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Using the Cooperative Business Model as an Economic Development Tool

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Market Report	Year Ago	4 Wks Ago	8/22/14
Livestock and Products.			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	124.95	163.44	152.66
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	186.31	293.19	258.48
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	158.53	240.61	226.79
Choice Boxed Beef, 600-750 lb. Carcass.	195.66	253.77	251.96
Western Corn Belt Base Hog Price Carcass, Negotiated.	89.49	125.94	95.81
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	99.99	131.92	106.58
Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct.	119.13	155.50	157.88
National Carcass Lamb Cutout FOB.	279.77	360.24	364.00
Crops.			
Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	6.71	5.59	5.58
Corn, No. 2, Yellow Nebraska City, bu.	6.21	3.45	3.49
Soybeans, No. 1, Yellow Nebraska City, bu.	14.18	12.52	12.52
Grain Sorghum, No.2, Yellow Dorchester, cwt.	9.39	6.04	6.09
Oats, No. 2, Heavy Minneapolis, Mn, bu.	3.63	4.12	3.95
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	245.00	211.25	192.50
Alfalfa, Large Rounds, Good Platte Valley, ton.	162.50	100.00	100.00
Grass Hay, Large Rounds, Good Nebraska, ton.	160.00	100.00	87.50
Dried Distillers Grains, 10% Moisture Nebraska Average.	225.00	111.00	97.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	72.50	41.00	38.00
* No Market			

Many rural areas are faced with the challenges of keeping their communities economically and socially vibrant in the face of declining populations and the loss of essential community businesses. The Nebraska Cooperative Development Center (NCDC) at UNL is focused on providing direct technical assistance to those in rural areas of Nebraska who want to build or preserve a business. The twist in the approach of the NCDC is that all the businesses assisted are developed and organized as multiple-owner businesses, primarily Cooperatives and Limited Liability Companies (LLC). Cooperative ownership of a business may include a few people or well over 100, depending upon the kind of business created.

NCDC is a part of the Department of Agricultural Economics at UNL and has been in existence since 2000. From 2000 through 2014, NCDC has been involved with over 100 business development projects that include the marketing of value-added agriculture products, consumer services, biomass conversion, marketing and distribution of local foods, as well as the establishment of cooperatively owned retail stores on the main streets in our rural towns.

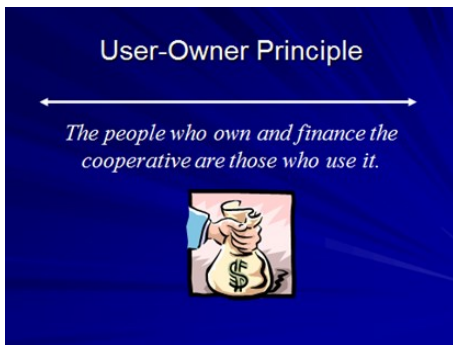
The Business Model

The *cooperative business model* has many appealing components at its core that make its use in rural areas generally easily accepted and embraced. The cooperative model is centered on the *user owned, user controlled, and user benefited* concept of business.

The idea of people working together for a common cause, especially in small towns, is nothing new. Adapting that shared responsibility concept to a business creation model is a fairly easy transition to



make. We have seen farmers and ranchers working together to market their production to a variety of customers. Products range from beef, pork, chicken, goats, fish, ostrich and dairy products; to fruit, grapes and wine, colorful woody florals; to hay, nuts, edible beans and organic or non-organic grains.



Other projects utilizing the cooperative model focused on hunting/recreation businesses, grocery stores, variety stores, convenience stores, cafés, clothing stores, and a couple of trade associations. Cooperatively-owned businesses solve the business succession problem that is occurring in many privately-owned businesses. Since the Cooperative or LLC is perpetual in existence, and ownership shares can be transferred or passed down, the business can outlive the originators. Multiple owners in a retail business situation give a built-in customer base. The business is owned and controlled by those who use it most. Investment in the business is to provide access to its services, not as an investment with hopes of appreciation. Hopefully, the owners will make special efforts to patronize the business in which they share ownership.



Development

The evolution of the process of forming a cooperatively-owned business follows some very specific steps that are critical to the eventual success of the project. In many instances someone in a community contacts NCDC with the basic question -- "some of us have an idea for a business, but we don't know where to start". That initial contact leads to the formation of a steering committee to guide the project through the development. Having the right people on the steering committee is critical to effective development. How that committee is selected depends upon the type of business that is being considered. If the end result might be a community-owned main street business, then the steering committee should come from a broad representation of the community such as business leaders, civic leaders, and those

who might represent a certain prevalent demographic component of the community. If the business is more specific in nature, such as a marketing coop for locally grown or made products, then the steering committee should be representative of the potential growers or producers who might use the services of the business.

As the steering committee begins their work, they often start the process to divide and conquer the work ahead through the creation of subcommittees. These committees tackle the major components that lead to the creation of an overall plan-of-work and business plan. We suggest fairly broad areas such as:

- Surveys, general feasibility, and market analysis
- Facilities and equipment
- Financial projections and business plan (including an exit plan)
- Legal and accounting, regulatory, licensing and insurance
- Public relations/marketing/membership recruitment

Hire the Best Legal and Accounting Services

One recommendation that we have for any group is to find an attorney and accountant who are familiar with the business structure they are considering particularly in the area of cooperatives. The laws governing coops are different from other corporate business structures. An attorney who is well versed in coop law will help the business get off on the right legal foot. Similarly, the accounting procedures used in coops are different from other businesses and there are nuances that are particular to the coop method of accounting.

Business Capitalization

Multi-owner businesses, such as Cooperatives and Limited Liability Companies, are largely self-capitalized. The capitalization process is most often in the form of selling "shares" of the Cooperative or LLC. This owner/investor is the first true validation of the business idea, in the broader community. The capitalization goal will be reached if local residents believe that the business is viable based upon the information shared by the steering committee, and that the proposed business will provide essential services to them and their community, and is worthy of investment as an owner. If the community of potential owners doesn't open their checkbooks, then they are most likely "voting" that they don't think the business is viable.

Undercapitalization of a business is one of the primary causes of failure in start-up businesses. Undercapitalization can cause an immediate problem with cash flow. One of the toughest decisions the steering committee must make is deciding on the amount of money needed to fully capitalize the business and the level of capitalization (indicating an agreement to borrow the remainder) needed to move forward with starting the business.

Governing the Cooperatively Owned Business

The cooperatively-owned business is typically under the control of a board of directors elected from the pool of owner/members. Most often, the first board of directors is largely made up of those individuals who comprised the steering committee. Investors realize that the steering committee is the group most familiar with the business plan and are most likely able to lead the new business into the start-up stage successfully. The new owner/members exhibit their control of the business by electing the board of directors to represent their interests.

Both board members and owner members must understand and accept their roles in the development of the cooperative business. A shareholder can make suggestions and relay ideas to the board. The cooperatively-owned business is hierarchal in nature. The shareholder elects the board and directs their comments and suggestions to the board of directors. The board of directors hires the manager, and as a group provides him/her the resources and guidance to effectively manage the business. The manager hires the staff and supervises and outlines their job responsibilities. The business works best when all understand their respective roles in operation of the business.

The Cooperative Approach

The cooperatively-owned business strategy is but one approach to entrepreneurial development to foster growth and vitality in our rural communities. It is a viable model that capitalizes on the power of people to create their own futures. Cooperative ownership of a business can help provide essential business services to a community. It can also serve as a vehicle for regional development that can add income to producer/growers who want to access a value-added market. The shared business ownership gives the users control of the business, gives them the benefits that the business provides to their community, and gives a share of ownership in a business which they find important to themselves and their families.

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