

# Cooperative Market Development

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# What is a Cooperative?

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- Simple Definitions:

“An enterprise or organization owned by and operated for the benefit of those using its services” (Merriam-Webster Dictionary)

“A cooperative is a business owned and controlled by the people that it services.”  
(Larry Snell, former Ex. Director, KCARD)



# Co-ops Today by the Numbers

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- More than 400,000 cooperatives in the US
- Serve more than 130.5 million members
- Nation's 100 largest co-ops, representing agriculture, finance, housing, energy, and hardware sectors reported over \$226 billion in sales in 2012

(Source: National Cooperative Bank)



# Cooperative Business Model

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- What sets it apart?
- Empowerment through democratic control and ownership
- Operate for benefit of members, governed by members
- “Not for Profit” advantage
- Patronage and Dividends

# Cooperative Business Model

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- Electric and Telephone
- Industry and workers
- Agriculture
- Finance
- Education
- Healthcare
- Economic Development

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# Kentucky Co-ops: Hopkinsville Elevator

- Established in 1968 with 180 members
- 5 locations with over 2300 members from surrounding 34 counties
- Agri-Chem, HEC Crop Insurance, and Commonwealth Agri-Energy





# Kentucky Co-ops: Lexington Farmers Market

- Established in 1975
- 75+ members
- Members pay annual dues, booth space rental per marketing day, gate fees per marketing day
- Multiple locations



# Kentucky Co-ops: Kentucky Organic Farm & Feed

- Established in 2009
- Organic Feed Mill Located in Guthrie, KY
- 18 Members who are Organic Dairy Producers



# Kentucky Co-ops: Campbell County Beef Association

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- Established in 2010
- Freezer Beef Marketing Cooperative located in Highland Heights, KY
- Offer individual cuts up to full beef



# Kentucky Co-ops: Marshall County Co-op

- Established in 1946 as the Marshall County Soil Improvement Association
- Farm supply cooperative that targets needs of small farmers and home owners
- Major expansion in 2008



# Kentucky Co-ops: Central KY Growers Association

- Established in 1998, Georgetown, KY
- Vegetable marketing cooperative
- Cabbage, cucumbers, fall décor, green peppers, pumpkins





# Economic Principles of Cooperatives

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- **User-Owned:** The people who own and finance the co-op are those who use it
- **User-Controlled:** The people who use the co-op control it via “One Member-One Vote” on major organization decisions and electing board of directors
- **User-Benefited:** The sole purpose of the cooperative is to provide and distribute benefits to members on the basis of their use of the services of the cooperative. (Operation (Service) at Cost, Patronage Refunds, Improved Pricing, Market Access to Goods and Services otherwise not available)



# Cooperative Principles

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- Voluntary and Open Membership
- Democratic Member Control
- Member Economic Participation
- Autonomy and Independence
- Education, Training, and Information
- Cooperation among Cooperatives
- Concern for Community





# Cooperative Classifications

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- Co-ops can be divided according to:
  - A. Groups served
  - B. Functions performed
  - C. Types of membership
  - D. Financial structure
  - E. Legal status



# A. Classified by Groups Served

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## 1. Agricultural Producers

- Marketing
- Supply
  - Feed, seed, fertilizer, petroleum, equipment
- Service
  - Farm credit system
  - Rural credit unions
  - Dairy Herd Improvement Association (DHIA)



# A. Classified by Groups Served (cont.)

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## 2. Consumer Cooperatives

- Consumer goods co-ops (food co-ops)
- Credit Unions
  - 12% of US population are members
- Housing co-ops
- Mutual insurance co-ops
  - Farm Bureau



# A. Classified by Groups Served (cont.)

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## 3. Worker Cooperatives

- Industrial worker
- Agricultural worker
- Health Care

## 4. Business Cooperatives

- Purchasing (Ace Hardware)



# B. Classified by Functions Served

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- Marketing
- Purchasing
- Services



# D. By Financial Structure

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- Stock cooperatives
- Non-Stock cooperatives



# E. By Legal Status

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- Incorporated
- Unincorporated





# Comparative Business Structures

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- Individually Owned Businesses

**Control** - Owner

**Capital** - Owner supplies equity & pays debts

**Liability** - Personal Liability

**Earnings** - Profits belong to the owner

**Taxes** - Profits taxed as owner's income

**Life** - Continues until owner sells or closes



# Comparative Business Structures

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## ■ Partnerships

**Control** - Partners

**Capital** - Partners supplies equity and pay debts

**Liability** - Joint and several

**Earnings** - Profits are shared by the partners

**Taxes** - Profits taxed as partner's income

**Life** - Continues until partners sell or dissolve



# Comparative Business Structures

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- Business Corporations (Subchapter C & S)

**Control** - Stockholders elect board.

**Capital** - Investors purchase equity stock.  
Corporation pays debts.

**Liability** - Limited liability

**Earnings** - Profits are distributed to stockholders based on equity contrib.

**Taxes** - Earnings taxed as corporate income and as stockholder dividend income.

**Life** - Perpetual existence



# Comparative Business Structures

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## ■ Limited Liability Company

**Control** - LLC Members elect Board.

**Capital** - Members provide equity.

**Liability** - Liability is limited to their investment.

**Earnings** - Profits are shared by members.

**Taxes** - Taxed as partnership.

**Life** - Perpetual existence or continues until members sell or dissolve.



# Business Corporations

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- **Subchapter C:** unlimited # of owners, unlimited classes of stock, ownership easily transferred, double taxation
- **Subchapter S:** single (pass through) taxation, limited to 100 owners, single class of stock, individuals and US citizens only, no retained earnings
- **LLC:** single taxation, “corporate formalities” (annual meetings, minutes, bylaws) are not required, very flexible—can be co-op like
- **Non-profit:** provides a legal entity separate from its members (good tool for handling funds), on dissolution assets return to community, 501 (c)3 can accept tax deductible donations



# Comparative Business Structures

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## ■ Cooperative

**Control** - Members elect board.

**Capital** - Members provide equity.

**Liability** - Liability is limited to their investment.

**Earnings** - Profits are shared by members based on patronage; limited by law (8% in KY)

**Taxes** - Income taxed **either** as corporate income or as member income.

**Life** - Perpetual existence.



# Cooperative Benefits

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- Cooperatives exist to meet their members needs. Focus is on service not investment.
- Cooperatives are owned and controlled by their members. Increased local control keeps the co-op in the community .
- Earnings return to members. Co-ops keep money in the community.
- Benefits reflected with: patronage refunds, better prices, services otherwise unavailable, access to markets, and assures sources of supplied





# Disadvantages of Cooperatives

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- Access to capital
- Cost of member and public education
- Investment in democratic process
- Limit in scope of operations
- Co-ops are only as good as their members ask them to be.



# Cooperative Development Process

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- Create Steering Committee
- Pre-feasibility Analysis
- Feasibility Study
- Business Plan
- Secure Financing
- Incorporate
- Elect Board of Directors
- Organizational Structure
- Facility and Equipment
- Start Operations



# General Guidelines for Success

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- Use advisors and committees effectively
- Keep members informed and involved
- Maintain good board/manager relations
- Conduct businesslike meetings
- Follow sound business practices
- Base decisions on market research rather than opinions
- Invest in member education



# How to Avoid Pitfalls

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- Strong member leadership and commitment
- Focus
- Comprehensive business plan
- Experienced advisors
- Realistic goals and assumptions
- Competent management
- Risks identified and minimized
- Sufficient capital
- Honest, open communications
- Invest in member, board, and staff education
- Realistic market entry strategy



# Closing

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- Any Questions?
- Thanks!

