

# The Farmer's Cooperative Yardstick: How to Start a Cooperative

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So you and your neighbors are thinking about starting a cooperative, but you are not quite sure how to go about it?

Here is a guide to help you--a step-by-step outline of the process of bringing a cooperative into reality. A cooperative's basic features and benefits are also discussed so that you can better understand what a cooperative is.

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## Guidelines: How To Start a Cooperative

**Step 1.** Have a meeting of all producers who might be interested in a cooperative. During this meeting, discuss the following topics.

*What are cooperatives?*

- a. A Cooperative enterprise is one who belongs to the people who use its services; the control rests with all the members and the gains are distributed to the members in proportion to the use they make of its services.
- b. An Agricultural Cooperative in Kentucky is a business consisting of five or more producers voluntarily owned and controlled by its member-patrons and operated for them on a nonprofit or cost basis.

*What types of cooperatives are there?*

- a. Marketing--processes and markets the products you produce.
- b. Purchasing--buys your supplies jointly with others: fertilizer, feed, oil, gas, seed, insecticide, etc.
- c. Service--provides you special services: electric, telephone, credit, irrigation, breeding, custom spraying/fertilizing, etc.
- d. Bargaining--negotiates the terms of sale (price and non-price).

*What business functions do cooperatives perform?*

- a. Haul - Ship
- b. Assemble - Sell
- c. Sort and Grade - Collect
- d. Pack - Remit
- e. Store - Buy

*What are some benefits of doing business through cooperatives?*

- a. Lets you be part of a group.
- b. Gives you more market power.
- c. Lets you reduce costs.
- d. Gives you more money (better price).
- e. Gives you more confidence in the future.
- f. Eases getting of business financing.

*What are the producers' problems and needs?*

*How would a cooperative help solve these problems and needs?*

*Is there sufficient interest among those producers present to continue with the organizing of a marketing cooperative? If so, appoint a survey committee.*

**Step 2.** The Survey Committee evaluates the following considerations or factors:

- Is there a need for the cooperative?
- Will it succeed?
- Potential membership and volume of business.
- Management skills needed.
- Facilities needed.
- Operating costs (projected).
- Estimated capital needs.
- Other considerations:

- a. Incorporation.
- b. Scope of business.
- c. Membership.
- d. Location.
- e. Hours of business.
- f. Representation on the Board of Directors.
- g. Method of pricing supplies and services produced by members.
- h. Marketing agreement.
- i. Business with non-members.
- j. Organization costs.

**Step 3.** The Survey Committee reports to the producers interested in forming the cooperative on the evaluation findings. The producers vote to either stop or continue with the organizing of the cooperative. Several meetings (in counties) may be held so that the interested producers can hear and study the findings.

**Step 4.** An Organization Committee is elected if the producers decide to go ahead with the cooperative. The Organization Committee's responsibilities include:

- a. Signing up members.
- b. Obtaining capital.
- c. Drafting legal organization papers.
- d. Filing the Articles of Incorporation.

**Step 5.** Charter Members Meet to vote on the adopting of bylaws and to elect a board of directors of the cooperative, if the bylaws are adopted.

**Step 6.** The Board of Directors conducts the first meeting and does the following:

- a. Elects the first officers of the association: President, Vice President, Secretary, Treasurer.
- b. Adopts a form of membership application or stock subscription.
- c. Adopts the form of marketing agreement if one is to be used.
- d. Selects a bank to do business with.
- e. Designates officers or employees to be authorized to handle funds and issue checks.
- f. Arranges for all members to receive copies of the Articles of Incorporation and the Bylaws.
- g. Arranges for bonding officers and employees in accordance with bylaws.
- h. Arranges for securing a location and facilities for doing business.
- i. Transacts other business, such as insuring and bonding the manager and other key employees.
- j. Hires the manager.

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## Basic Cooperative Features

- Democratic member control (one man - one vote)
- Limited returns on member investment
- Services provided to members rather than profits given to investors.
- Limited to 8% by federal law.

Members share in the savings, or risks, in direct proportion to their use or participation in the cooperative.

- The cooperative operates at cost.
  - Patrons (members) get net proceeds and pay individual income taxes.
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## Cooperative Benefits to Farmers and Communities

Farmers benefit from using cooperatives in many ways. The benefits, however, vary widely even among cooperatives handling the same commodities.

(1) Intangible benefits to farmers from cooperative membership include the creation of business competition and its effect on price leveling, service, quality and other business practices. These intangible benefits are for all farmers--members and non-members alike. (2) The net income of farmer-members is potentially increased by expert selling by the cooperative of farm products; pooling or aggregation of products for quantity and quality distribution; provision of needed marketing services to the membership; and the improvement of farm practices and efficiency

Through member education and member participation. Cooperatives aid in developing stronger rural communities for several reasons:

(1) They are composed of rural people who are the agribusiness and farm leaders in the vicinity.

(2) The cooperative is a local tax payer and supports community service projects. (3) It helps develop stronger business and civic-minded leaders. Cooperatives themselves need support businesses to carry out functions that cooperatives do not provide or to supply products they do not have. These additional businesses increase community employment and generate revenue, as do the cooperatives. Cooperatives also try to establish business honesty and truthful advertising, to maintain high quality and product standards and to initiate change to new products. Because of their main interest in individual farmers, they also are a restraint on monopolistic practices.

## Additional Information

The organization and operation of a successful cooperative requires detailed information, above average managers and informed, concerned decision makers. To help your cooperative succeed, the [Kentucky Cooperative Extension Service publications](#) will be available through your local Extension office.

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