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STARTING A COOPERATIVE ONE STEP AT A TIME

People start cooperatives primarily in response to an economic need – for example to provide purchasing, processing, marketing, bargaining and manufacturing services not currently available, or available only at excessive cost.

If you are interested in forming a cooperative, learn all you can about the legal, economic, and financial aspects of cooperative enterprise.

Become a student of cooperation, and develop a strong understanding of what makes a cooperative different from regular, investor-owned business, and how you can make good use of the advantages that running an enterprise as a cooperative offers.

Three things are vital if a cooperative is to be successful:

- 1 – understanding where user member benefits come from
- 2 – member participation in decision making activities, and
- 3 – a sense of cooperative spirit

A group of people start a cooperative

- because they want a self-help solution to a commercial opportunity but they can't achieve success on their own
- to obtain, or improve the quality of products or services
- to expand existing market opportunities, and create new ones
- to improve their bargaining power and reduce their costs
- to create an enterprise in which the mission controls the design, with private ownership for both individual and common good
- to increase member income
- to develop wealth within their community, and
- to generate and preserve real, living wealth rather than phantom wealth which could disappear when a bubble bursts.



STEP 1

Is there an economic need?

A cooperative is set up in response to a specific problem or an opportunity. The idea is often initiated by an individual or a small group which meets to discuss the need. This meeting should focus on the economic need and the potential use of a cooperative as a solution.

Discussion topics should include:

- what information is available about the perceived need?
- could a cooperative effort address this need?
- where can we find reliable information about cooperatives?
- who can serve as an advisor to the group on developing a cooperative?
- who should be invited to a meeting of potential users?
- how should potential users be contacted?

If a cooperative seems to offer a solution, a larger meeting of potential users could be planned.

Is there an economic need?

YES – proceed to step 2

NO – stop cooperative development

Huia CDS offers a half day workshop that enables participants to examine what exactly a cooperative is and how its members benefit from belonging to one, and the differences between a cooperative and other business types. It will enable you to decide whether a cooperative enterprise will be able to provide what you're wanting to achieve.

STEP 2

Can a cooperative offer a solution?

Hold an initial exploratory meeting

If there is sufficient interest to support a cooperative, a meeting of potential user members should be held. The initial group should decide who their target audience is and send out invitations, develop an agenda and select a chairperson to conduct the meeting.

Among the items that should be discussed are:

- an outline of the problem
- possible solutions
- cooperative terminology and principles
- how a cooperative might work in this situation
- advantages and disadvantages of a cooperative
- the financial and other commitments that might be expected of user members
- the process of conducting a feasibility study

Allow time for potential members to ask questions. If the group votes to continue with more detailed study, a steering committee should be selected.

Select a steering committee

Steering committee members should have an interest in the proposed cooperative and sound business judgement. They often become the cooperative's incorporators and may serve on its first board of directors.

This committee has two functions:

1 – to decide the feasibility of the cooperative – is the proposed cooperative likely to succeed and will it be of value to members?

2 – to prepare a specific, detailed business plan for the proposed cooperative.

The steering committee should consult specialists in the areas of:

- cooperative business development and operation,
- law, and
- finance.

Two essential studies must be initiated: a survey of potential members, and an initial market analysis.

Once you're clear that a cooperative will satisfy your needs, Huia CDS can offer you a half day workshop in which you will go through the legal and financial aspects of a cooperative. Among the items you will discuss are how much capital a member will need to contribute, the size of the board, what to look for in an appointed director, and how outside investors might be involved.

Can a cooperative offer a solution?

YES – proceed to step 3

NO – consider another type of organisation



STEP 3

Is there interest from potential members?

Conduct a member survey and an initial market analysis

The steering committee must learn all it can about the potential user members of the cooperative, and what a cooperative can do for them. The survey should explore four areas:

- **Member needs**

A cooperative is formed and operated for the sole purpose of meeting member needs.

- **Anticipated business volume**

The cooperative must have some assurance of sufficient volume to operate as a business so it can plan for facilities and the equipment it needs.

- **Location and business or service characteristics of prospective members**

Where, how and when the cooperative delivers its services is of prime importance.

- **Opinions of potential members**

How do potential members feel about cooperatives and participating in one?

Research has shown that while people join a cooperative for economic reasons, as their understanding of how members benefit from their cooperative develops and they take part in the governance process, they come to understand the sense of cooperative spirit which is so important to the long term success of a cooperative.

Prior to conducting the initial market analysis, the steering committee will need to meet to review the survey of potential members.

Huia CDS helps individuals, groups and small businesses, to develop cooperative and mutual enterprises, alongside legal and financial specialists who know and understand cooperatives. We ensure the new cooperative is set up with every chance of success.

This will tell them:

- whether there is interest in the proposed cooperative
- the anticipated size of the business
- the willingness of potential members to commit product and capital.

Depending on the results, the committee then decides whether to proceed with the project, or not.

Further analysis

Following a decision to proceed, an initial market analysis is conducted to determine if the proposed cooperative has an economic place in the market place. This analysis will identify and examine market conditions to provide insight into appropriate activities for the cooperative, volume, facility, and technological needs, and other relevant factors.

The outcome of the analysis will identify which activities are appropriate, the anticipated business volume and financial needs of the potential cooperative.

Second exploratory meeting

This meeting reviews the results of the user member survey and the initial market analysis. Based on the information presented, participants vote to either continue or abandon the project. If they continue, the next step is to conduct a comprehensive feasibility analysis.

At this point, potential members may be asked to demonstrate their commitment to the potential cooperative by investing money to cover some of the costs of developing the cooperative.

**Is there
interest from
potential
members?**

YES – proceed
to step 4

NO – stop
development

STEP 4

Is the plan for a cooperative feasible?

Third exploratory meeting

At the third exploratory meeting, the steering committee presents the findings of the comprehensive feasibility analysis to potential user members and provides a recommendation on whether to proceed.

If the group decides to proceed, the next step is to prepare a business plan and draft legal documents.

Prepare a business plan

Every business needs a business plan. The steering committee should arrange for an in-depth business plan to be produced by a professional who is familiar with how cooperatives provide benefits to user members.

Huia CDS can connect you with specialists who have the knowledge and experience you need.

The plan is developed from the foundation provided by the feasibility analysis and provides an organisational map for the new cooperative to follow as it starts operations.

Draft legal papers and incorporate

The constitution (in New Zealand) or the rules (in Australia) states the purpose and scope of the cooperative and gives the business its legal standing. An off-the-shelf company constitution or corporation rules does not take into account the special nature of a cooperative. The constitution will need to fit easily within the

provisions of the Cooperative Companies Act in New Zealand, and the rules within Australia's new Cooperatives National Law.

A member agreement will set out how the cooperative will conduct business and must be consistent with both the law and its constitution.

Legal advice should be taken on these and other legal documents, such as a prospectus and investment statement.

Fourth exploratory meeting

At this meeting, potential members review the work and recommendations of the steering committee, including the draft constitution, member agreement, and any adjustments made to the business plan.

Support for the cooperative should again be evaluated by a vote on whether or not to form the cooperative. If affirmative, the incorporators set up the cooperative at the New Zealand Companies Office or with the Registrar of Cooperatives in their State in Australia.

First annual meeting of the cooperative

At the first meeting of the cooperative, members have two very important responsibilities, which are to:

- approve the constitution and member agreement
- elect the board of directors

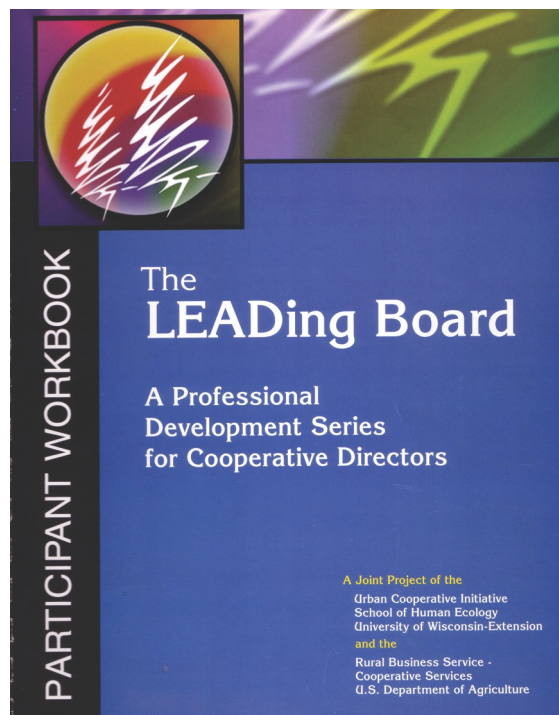
While steering committee members are often board candidates, other members may also be elected to these leadership positions.

For tips and hints on cooperative business development and useful tidbits of news of cooperatives and member-owned businesses worldwide, add your email address to the Huia CDS mailing list

First board meeting

The first meeting of the board of directors should focus on selection of board officers, committee appointments, and carrying out the business plan.

Additional agenda items should include arranging debt capital, conducting a membership drive, establishing a job description for a manager and conducting a search for a manager.



Is the plan for a cooperative feasible?

YES – proceed to step 5

NO – stop development

Your cooperative's newly elected directors would benefit greatly by going through The LEADing Board together, as a board. Developed at the University of Wisconsin, The LEADing Board is a governance programme specifically designed for current and future directors of cooperatives. Huia CDS offers this programme in Australia, New Zealand, Asia and the Pacific region.

STEP 5

Will members commit capital & business volume? Are resources available?

Acquiring capital

The board of directors is responsible for arranging adequate capital. Capital may be raised by members purchasing shares (equity) and borrowing funds (debt).

Members must invest or pledge sufficient capital in the business to demonstrate commitment to the cooperative's success. Exact amounts will depend on activity and on lender requirements.

Projected cash flow forecasts and financial statements from the business plan are important in determining capital needs and arranging for debt capital.

Hiring a manager

One of the most important duties of the board of directors is to hire a manager who is responsible for day-to-day operations.

**Will members
commit capital
and business
volume? Are
resources
available?**

YES – begin
operations

NO – go back
to square one

Hiring employees, acquiring facilities, beginning operations

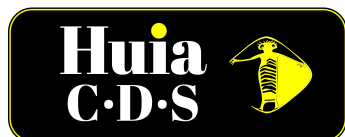
The manager hires capable employees and advises the board on what facilities and equipment to acquire, within the budget and operation guidelines established by the board.

A cooperative is a distinctive form of business. Whatever its purpose, starting one requires time, energy and commitment by potential members to finance and use the business, and select knowledgeable directors who will hire a competent manager.

Important factors for cooperative success

Experience shows that a newly organised cooperative's chances for success can be improved by:

- clearly identifying the economic need
- reaching agreement on the cooperative's mission
- developing good leadership
- running education programmes to help members and managers understand the cooperative business model
- ensuring that members commit to do business with their cooperative
- following sound business practices
- maximising their cooperative advantage by using a .coop internet domain from the get go
- joining and taking part in a cooperative peak body – the Business Council of Cooperatives and Mutuals in Australia, or Cooperative Business New Zealand.



**FOR ASSISTANCE WITH SETTING UP A COOPERATIVE
GET IN TOUCH**

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