

United States
Department of
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Rural Business-
Cooperative
Service

Cooperative
Information Report 33



The Cooperative Approach to Crafts



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R. Wade Binion and Gerald Ely

February 2000

Preface

A significant number of professionals produce crafts in the United States. But they often have difficulty realizing maximum return for their production. Craft cooperatives, guilds, or informal organizations have been of major importance in solving marketing problems faced by craftspeople.

This publication gives a brief review of craft development in the United States, discusses the cooperative approach to solving craft marketing problems, and offers development guidelines for craft cooperatives. This publication is an update of several earlier versions on the subject.

Cooperative Information Report 33

Revised February 2000

(R. Wade Binion is an agricultural marketing specialist with the Cooperative Development Division of the USDA's Rural Business-Cooperative Service; Gerald E. Ely is a cooperative development specialist in Pennsylvania. Parts of this document were prepared earlier by USDA staffers who are now retired.)

The Ozark Foothills Craft Guild, Mountain View, AR, was organized in 1962 as a member-owned craft cooperative to revive traditional crafts and provide access to retail outlets. When the Guild expanded in 1965 to a statewide organization, the name was changed to the Arkansas Craft Guild. It has more than 300 members and operates four retail outlets in Hot Springs, Little Rock, Eureka Springs, and Mountain View (also the Guild's headquarters).



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Watermark Association of Artisans, Inc., Camden, NC, is a retail and wholesale marketing cooperative composed of 450 members. NEED, the educational arm of the cooperative, is a nonprofit training foundation that conducts classes in crafts, business, and personal development skills to empower individuals to better control their economic and social conditions.

The Cooperative Approach to Crafts

R. Wade Binion and Gerald E. Ely

Craft production has become increasingly popular in both rural and urban areas of the United States. Several factors have contributed to the growth, including an interest in the American heritage; interest in diverse ethnic craft skills; availability of leisure time; an appreciation of the personal qualities of hand-produced items; and the need for additional income.

Although often done for therapeutic or self-fulfillment purposes, many craftspeople market their crafts for a source of income. The demand for quality craft products has enabled many producers to earn supplemental income from their craft activities. Helping rural people improve their income through craft production and marketing is one objective of USDA's Rural Business-Cooperative Service (RBS).

Craft Production and Marketing

Typically, a single producer makes crafts in their home. In some cases it may involve more than one family member. The craft design may stem from traditional sources passed from one generation to another, be one supplied by some other person for production in the home, or be an original design of the craftspeople.

Other crafts may be produced in a central location, with each person responsible for completion of an individual piece from beginning to

end. The least common type of craft production is an industrialized process where a prototype of the craft is designed and then mass-produced in a factory-like setting.

Craftspeople market their work through both retail and wholesale outlets. Retail sales are made directly to the ultimate customer, either in person or by mail, through the craftspeople's own shop or studio or at a fair. Those who retail their finished product must cover the costs of production and marketing from the retail price received. Marketing expenses are discussed on page 9.

In the wholesale market, crafters will sell their product to a buyer who typically purchases crafts from multiple sources. The wholesaler will then resell the crafts at a marked up price. Wholesaling crafts involves more than just negotiating a price. It includes solving problems in shipping, storage, financing, risk bearing, and market information. These concerns must be addressed by either the craft producer or the wholesaler.

Some options available for the craftspeople in selling their craft in the wholesale market are

- Deal directly with the retailer. Craft producers who deal directly with retailers sell their crafts outright or consign them.

When crafts are sold outright, the retailer takes title of the product on delivery. With consignment, the producer retains title to the crafts until they are sold. In either case, producers must be able to handle wholesaling functions and set a price that will cover their expenses and generate a reasonable profit. If the crafts are sold on consignment, producers should expect payment within 30-45 days after the sale. Because producers selling on consignment assume retailing expenses such as insurance, losses due to shop wear, and financing inventory throughout the selling period, they normally receive 60-70 percent of the retail price. Consignment puts more risk on the producer than any other wholesale method.

- Hire a commissioned sales representative. A commissioned sales representative acts as the producer's agent in negotiating sales to wholesale buyers. Sales representatives typically receive a 10-20 percent commission for all services. With this method, the producer retains ownership of the crafts until they are sold and shipped to the buyer. Craft producers



Toe River Crafts, a cooperative shop with 25 members, is set at the foot of the highest mountains east of the Mississippi River near Burnesville, NC. Photo by Bob Oldham.

must handle other responsibilities such as setting wholesale selling prices, checking the buyers' credit, and preparing, packing and shipping orders.

- Sell directly to wholesale merchants or jobbers. Wholesale merchants or jobbers buy crafts from producers and then resell them to other buyers. They assume the responsibility for performing most of the wholesaling functions and receive compensation by marking up the price before reselling the crafts. Producers who sell directly to a wholesaler spend less time on wholesaling activities than with any other wholesaling method. Many cooperatives wholesale crafts for their members.

Craft marketing has not developed without serious problems. The return to the craft producer has often been meager. Efforts at self-support through craft production involve many frustrations, such as:

- Lack of market contact. Craft producers who live in isolated rural areas often have limited access to markets. They are often forced to accept whatever price is offered for their craft products. Isolation may also create a lack of awareness of what is marketable in metropolitan areas.
- Lack of access to supply sources. Production of quality crafts requires the use of quality supplies. The same isolation that separates many craft producers from potential markets also restricts the availability of supplies needed to pro

duce their crafts. When available, the supplies are usually purchased in relatively small quantities at the higher retail prices.

- Lack of business training. Training in craft production may be handed down from one generation to another or learned through a technical school or university, but the training a producer needs to become a successful businessperson is not always available. If a craft producer lacks knowledge in design skills and business management, they may have difficulty determining the best alternatives for producing and marketing their crafts.

The need for assistance with these problems has prompted craftspeople to form cooperatives.

Cooperative

A cooperative is a business that is formed by a group of people to obtain services more effectively or more economically as a group than they can obtain on their own. Members of a cooperative own, finance, control, and operate the business for their mutual benefit.

Cooperatives have long been the organizational device for helping people meet problems beyond their individual capabilities. While the cooperative approach does not necessarily assure success, it does provide an opportunity to bring together needed resources to overcome many problems.

Like the sole proprietorship, partnership, or investor-owned corporation, a cooperative must operate as a business if it is to succeed.

Competent planning and management are the foremost requirements in effective craft marketing cooperatives.

Cooperatives are similar to other corporations in that both:

- Incorporate under State laws
- Prepare bylaws and other legal documents
- Have a separate legal existence
- Elect boards of directors who set policy and hire a manager to conduct day-to-day activities.

In other ways, cooperatives are distinctly different from investor-owned corporations. These differences, called cooperative principles or characteristics, are

- Ownership benefits and obligations in proportion to use
- Democratic control
- Service at cost
- Limited return on equity capital.

Ownership benefits and obligations in proportion to use means that cooperatives are owned and financed by the members who use them. Benefits are derived in proportion to each member's use of the cooperative's services rather than in proportion to the amount of investment. (This differs from investor-owned corporations where owners account for little business volume, but are primarily interested in returns on invested capital.) Having different purposes, cooperatives and investor-owned corporations will likely make different planning decisions for their businesses.

The second principle, democratic control, dictates that the cooperative operate by consensus, or majority rule. All members of the cooperative have an obligation to participate in the decision making process. They must adopt and amend bylaws, decide major policy issues, determine cooperative direction, and elect the board of directors. Democratic control usually means that each member has one vote, regardless of the amount of stock owned or the volume of business conducted with the cooperative. Therefore a member with 10 percent of the stock has the same vote as a member with 1 percent. Likewise, the member who sells or buys the most through the cooperative has the same voting status as the one who uses its services the least.

The third principle specifies that the underlying purpose of the cooperative is to provide service to member-owners at cost. This doesn't mean the cooperative can't charge competitive prices for supplies or services. As with any business, the cooperative must generate gross margins sufficient to cover operating costs and meet continuing capital needs. However, after a cooperative has determined its actual costs at the end of each fiscal year, any net margin (profit) is allocated to the member-owners in proportion to their patronage (use) of the cooperative. The distribution of the net margins can be by a combination of cash payments or book credits, known as allocated reserves.

The fourth principle, limited returns on equity capital, discourages investor-oriented decision making and helps retain the cooperative's service orientation. Equity investments, however, do help defray the members' cost of providing capital to the cooperative. State statutes may limit the amount of dividends or

interest paid on stock to the cooperative. This return limitation should be written into the cooperative's bylaws.

These four cooperative principles are the foundation of a unique business designed to serve its owners, who are also its users. They set cooperatives apart from other types of businesses. By investing in their own cooperative, members are making a commitment to it. By limiting the influence of any one member, the cooperative becomes more responsive to the needs of its total membership. And by providing services at cost and limiting dividends paid on equity capital, its value to members is determined by use rather than by investment.

Cooperative Structure

Local Cooperatives—A craft cooperative usually starts on a local basis, serving the needs of a limited geographic area. Craft producers are members of the local organization. The local cooperative's strength rests largely on these points:

- Members know each other.
- Most members have the same marketing and production problems, thus creating unity of interest.
- All are familiar with the local manager.
- The local cooperative is an effective medium for marketing and production information.

The small size of a local cooperative makes it difficult to generate sufficient sales volume locally, conduct extensive marketing programs outside the local area, and secure training assistance and other services. These problems are also found in non-cooperative small businesses.



At work is Carolyn McKecuen, the manager of Waternmark Crafts, Inc., a predominately wholesale cooperative with 300 members in Camden, NC.

Regional Cooperatives—The financial, management and marketing problems of a local cooperative can sometimes be solved by the economies of scale found in a regional cooperative with many producer-members. A regional cooperative has a centralized, federated, or mixed structure, depending on the type of membership.

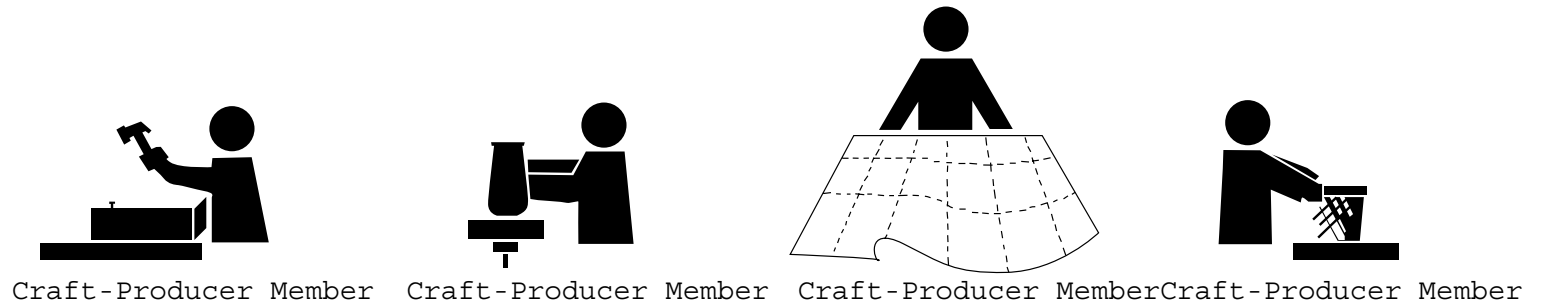
A centralized regional cooperative is really a large local with individual members from a much broader area. A federated regional is a cooperative of cooperatives. Members are local cooperatives rather than individuals. Control rests with locals who in turn are controlled by individual members, the chief beneficiaries of both local and regional operations. A regional cooperative with mixed structure consists of both individual members and local cooperatives.

The federated structure seems well suited for the craft industry because it can serve diverse needs of local cooperatives while preserving their autonomy. Organizing a federation takes only a few local craft cooperatives. Often these locals have worked together informally because of mutual problems. If they think a federation can help solve their common problems, they can meet other local cooperatives with similar interests. The organizational processes are similar to those used in establishing a local cooperative.

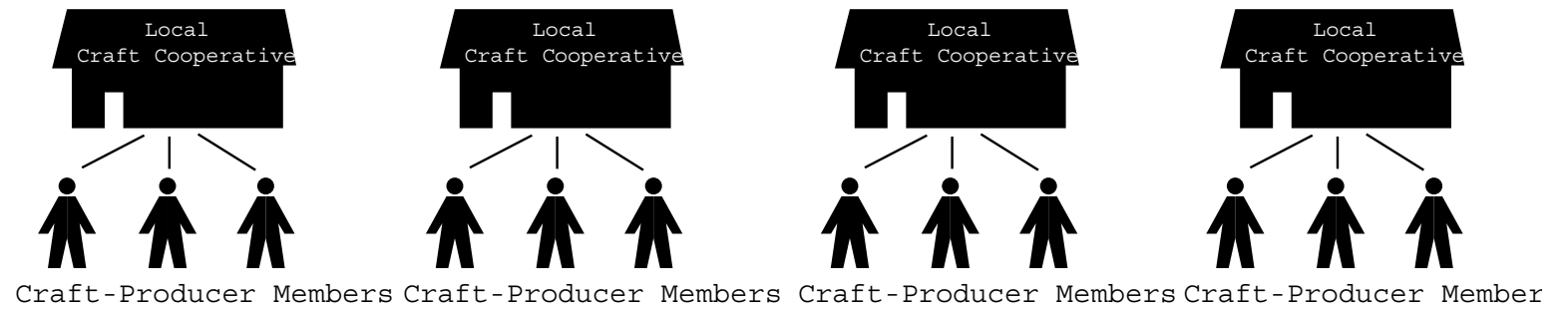
Advantages of the federated cooperative include the ability to combine the efforts and resources of a larger number of producers into a stronger economic effort without producer-members losing their identity with their local cooperative. Weaknesses include less flexibility in making major operating changes and a need for constant communication between the federation, local cooperatives, and members.

Figure 1 – Structures for a Regional Craft Cooperative

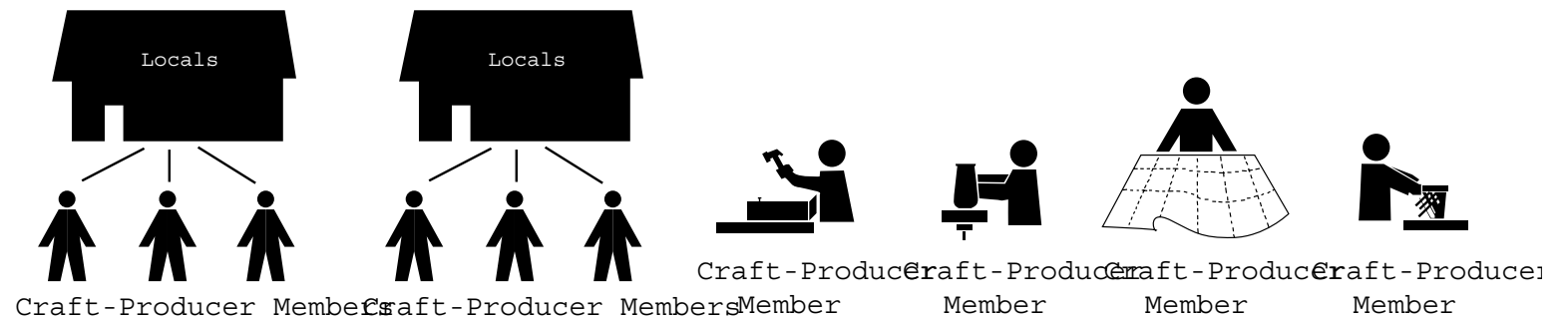
Centralized

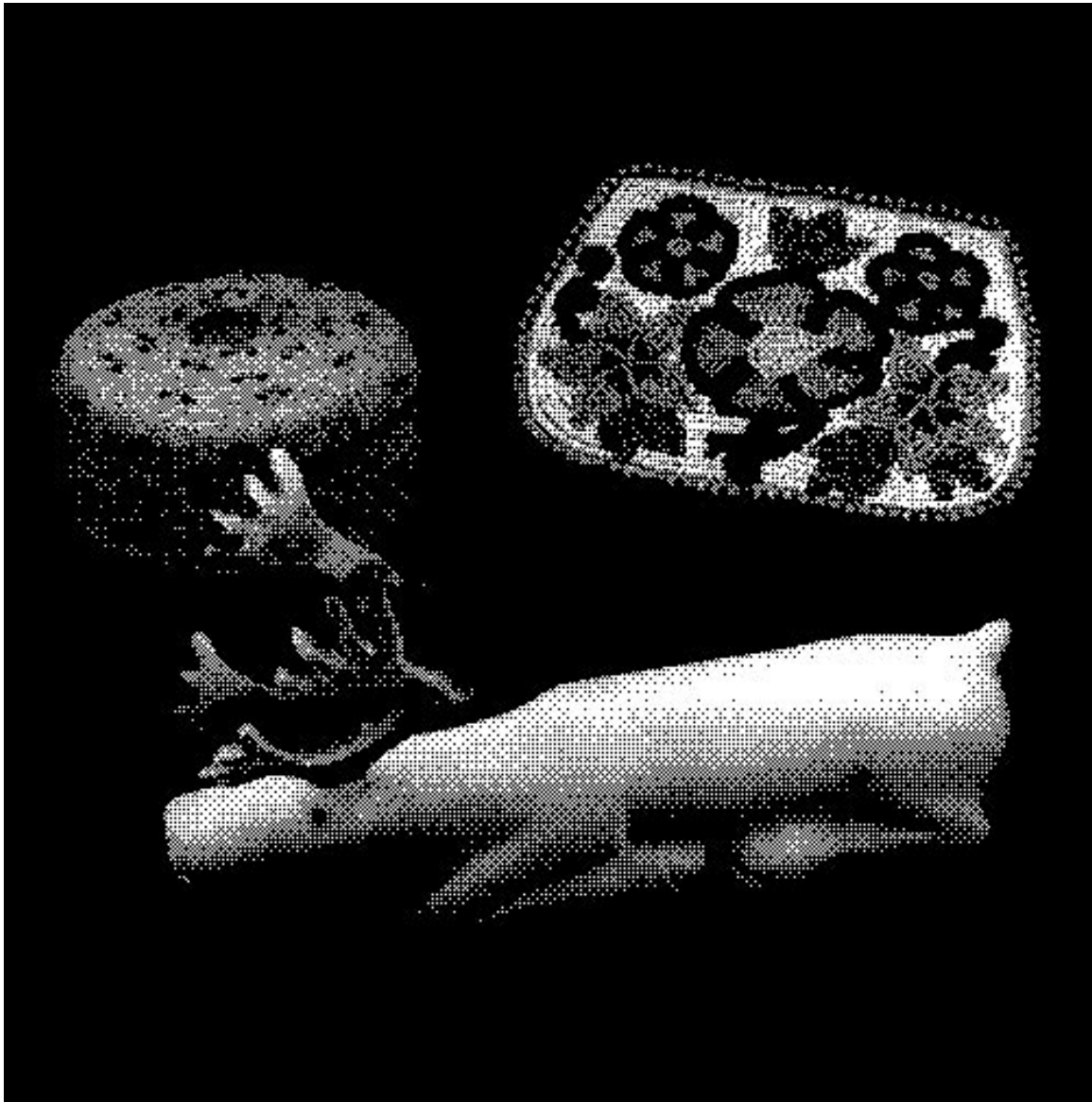


Federated



Mixed





Products of Alaska Native Arts and Crafts Incorporated, a state-wide cooperative of Alaskan Indian, Eskimo and Aleut craft producers, in Anchorage, AK; an Aleut grass basket; an Athabascan Indian beaded coin purse; and an Eskimo ivory and antler carving of a caribou. Photo by U.S. Department of Interior, Indian Arts and Crafts Board.

Craft Cooperative Activities

The needs of craftspeople depend on location, the type of craft produced, skill levels, and other factors. A cooperative's membership must determine what is needed and how to meet those needs. In general, cooperatives have found it advantageous to assist in such areas as marketing, production assistance, and obtaining technical assistance for producers. A comprehensive program to assist members offers the greatest potential for success.

Marketing—Numerous potential craft markets go untapped because producers are either unaware they exist or are unable, individually, to supply that market. A craft cooperative can link the production capabilities of its members with a wide array of markets. Successful linkage not only increases the producer's income, but benefits the buyer. Marketing activities might include:

- Identifying potential customers and target markets
- Evaluating customer's needs
- Giving producers feedback on the latest trends in color, design, and competition
- Setting uniform quality standards, developing coordinated lines, and guaranteeing delivery to attract wholesale buyers, and
- Providing retail and wholesale services such as operating a retail shop, selling at wholesale craft or gift shows, sponsoring craft fairs, publishing retail mail order catalogs, using sales representatives, or acting as a wholesale merchant.

Many craft producers have successfully marketed their products through cooperatives. For example, one cooperative in North Carolina has grown to more than 800 members since its beginning. It now operates a retail shop plus a very successful wholesale business that sells to about 1,200 retail shops, catalog companies, and department store chains throughout the United States and several foreign countries. Another cooperative guild that opened its first store in 1962 in Arkansas has expanded to five retail outlets to sell members' crafts.

Production Assistance—The cooperative activities that can help to improve production efficiency and/or product quality and decrease production costs include:

- Bulk purchase of materials or supplies to help ensure a reliable supply of materials, often at a lower cost.
- Joint purchase and use of machinery or equipment that may be too expensive for one individual to buy.
- Continuous review of equipment, supplies, and new technological developments that could be adapted to members' craft production processes.
- Training in production techniques, including industrial processes, and space and time management.
- Product design and color selection.

Technical Assistance—Successful craft production and marketing requires a variety of information, skills, and resources. Various forms of training and assistance may be obtained through a cooperative:

- Training in design, production, and business skills to improve craft products and the managerial capabilities of its members
- Information about governmental regulations regarding labeling, licensing, taxation, etc.
- Assistance in securing loans to purchase supplies, equipment, or needed services. However, cooperatives should not lend money to producers or guarantee loans for them.
- Information about new books, periodicals, seminars, exhibitions, and other activities that can contribute to members' professional growth.

Assistance should be directed toward better equipping members to conduct their craft business. Because assistance will change as the cooperative grows, it must be imaginative, dynamic, and responsive to the members' expressed desires.

Getting Started

Formation of a cooperative generally results from the interest of a few craft producers, usually friends who share common economic problems. If group action offers the potential for solving these problems, the members should enlist others with similar interests to join them.

If the group, after informal discussion, decides to form a cooperative, they should contact an individual familiar with the process to become acquainted with the necessary steps in forming the cooperative. This person may be from the local office of the State Cooperative Extension Service (CSREES), an established cooperative, a local credit union, the state cooperative council, or a cooperative development

specialist with USDA's State Rural Development Office. (See other sources of assistance on pages 13-16).

If further interest is shown, a meeting of potential members should be held, at which the proposed cooperative is outlined. This should include a full discussion of problems to be solved, the cooperative's potential, and, if possible, examples of other craft cooperatives' experiences. Participants should discuss if solutions to identified economic problems be found through existing businesses and organizations?

Work of the Steering Committee

A steering committee should be formed at this meeting if sufficient interest exists. The committee can provide producers with the information needed to decide if they want to organize a cooperative. The committee may do the research itself or obtain outside help and serve as a go-between. The information that producers need about a potential cooperative and members includes:

Need—Does an economic need exist for the service a cooperative might provide? Is the service already available in the area? A cooperative is not needed unless members can receive benefits they cannot get otherwise.

Economic need depends on producers' circumstances. For example, a group of potters found that by ordering a truckload of clay together they could save on shipping costs to their remote location. Stuffed-animal makers in Appalachia attracted more buyers and obtained better prices because their cooperative offered a complete line of animals and guaranteed volume and delivery.

When economic benefits such as increased selling prices, increased access to the market, or a lower cost of supplies are not apparent, craft producers should ask if a cooperative is their best alternative. Having established a need for the cooperative and reached a consensus about a cooperative's objectives, the committee should evaluate its economic feasibility.

Potential Cooperative Business—It is very important, although it may be difficult, to obtain accurate information about the amount of business members expect to conduct through a cooperative. One way is to distribute a questionnaire to interested craft producers. (See Appendix A for a sample craft producer questionnaire.)

In marketing, care must be taken in projecting the potential members' output. Hobbyists often overestimate their potential production and then have difficulty keeping up with a heavy schedule. If possible, steering committee members should inspect samples of potential members' work to determine quality and marketability. If the committee is not qualified to judge, outside craft specialists should be called in to do this. The committee must ensure that samples are representative of potential members' work.

If the survey shows that the producers, even though inexperienced, are still interested in a cooperative, they should start in a way that gives them experience, but requires little investment. One way is to jointly participate in a fair that members would not normally attend alone.

Member Responsibilities—The steering committee should determine if the producers are willing to take on responsibilities as owner-

members of the proposed cooperative. Such responsibilities include:

- Participating in the affairs of the cooperative. Members elect directors to the board, adopt or change bylaws, and decide such policy issues as a major investment or the cooperative's method of financing. To make sound decisions, members must keep informed about the cooperative. Members must be willing to serve on committees such as standards, marketing, or member relations.
- Using the cooperative. Members must use their cooperative if it is to succeed. To enable the cooperative to make the best purchasing and sales decisions, members must sign a marketing contract. (See Appendix D, Sample Marketing Contract.) The contract stipulates production commitments of members, responsibilities of the cooperative, and penalties for noncompliance. If producers are unwilling to sign a marketing contract, their need for a cooperative should be examined closely.
- Financing equity capital needs. Members must provide the cooperative with the equity capital necessary to provide a base for financing its operations. Generally, members invest in a cooperative in proportion to their use. That is, a member with \$10,000 worth of anticipated sales should invest 10 times the equity as a member with a projected \$1,000 in sales. If producers are not willing to take a financial risk, they should not organize a cooperative.

- Paying for operating expenses. Like any business, a cooperative's operations must be financially sound. If producers want a successful cooperative, they must be willing to pay for operating expenses through adequate margins on products marketed and supplies purchased. Adequate gross margins will be at least 45-50 percent of sales. If a nucleus of producing and committed craftspeople does not exist, a cooperative should not be formed.

Craft Markets—Just as craft producers marketing individually must examine their options, potential members must look at what options the cooperative can offer. What markets exist locally and what volume of sales can be expected? Will sales be through a cooperative-operated retail shop or gallery? Is there potential for wholesale sales in local shops or in craft shops outside the area? Are there marketing techniques that could be used to expand the volume of sales, such as mail order catalogs or participation in craft fairs?

Before deciding on a market area, a group must carefully research potential customers and their buying patterns. For example, if 80 percent of the potential customer base is middle- to upper-income women, the cooperative may want to be located next to a fashionable dress shop. Other gift stores may find that their best locations are in cities with such characteristics as having a population under 100,000, a university, a substantial number of professional workers, or families with higher-than-average incomes. Census data can pinpoint areas with population characteristics best suited to the situation.

The volume of potential sales will depend on the production capability that can be identified or developed. It will be difficult to project precise sales figures.

Operating Expenses—Estimating operating expenses is easier than estimating sales. The steering committee must answer such questions as the following: What are the costs associated with operating the cooperative, both total and per-unit of sales? How will these expenses be distributed throughout the year? Included will be expenses such as rent or mortgage payments, salaries, utilities, and insurance. (Expense and sales ratio examples are shown in Appendix B.) To get a good feel for expenses, talk to people who have been in the gift or craft marketing business.

Operating expenses will vary depending on the type of marketing or supply procurement program that is established. Projected financial statements should be developed for each mode of operation to give the committee a clear picture of expected sales, expenses, and earnings.

Make realistic assumptions about the growth of membership and the production volume of the cooperative and then develop projected financial statements for 3 years of business. Such statements should include monthly cash flows and annual operating statements and balance sheets. This process will help determine how long it will take the cooperative to become self-sufficient and how much operating capital is required.

Inventory Selection—Selecting inventory carefully is a key to success. Without any experience, most cooperatives have to rely on trial and error. To protect themselves from

investing in large quantities of slow-moving items, some cooperatives buy in limited quantities. Others start with consignment and switch to outright purchase by buying the fastest turning items first.

Capital Needs and Financing—The Bank of America advises, "Most banks will not consider extending more than half the capital (fixed and operating) necessary to launch a store." This puts responsibility on members to provide the remaining equity capital needed. As owners of the cooperative, members should be willing and able to make the needed investment. How much capital, for fixed assets and operating capital, will be required to start the cooperative? How much can members provide and on what basis? What are the other potential sources of capital?

The amount of capital will depend on the operational characteristics being considered by the cooperative. A marketing program that includes a retail sales facility probably will require larger amounts of capital than a program based on wholesale sales from a small warehouse facility. Also, a cooperative that plans to buy crafts outright will need more operating capital than one that will operate on consignment.

Grants from public sources, foundations, and churches have been used by many cooperatives to get started. But caution should be used when considering starting a cooperative with grant funding. Many times groups organize a cooperative just so they can get a grant, or they plan its operations around a continuous subsidy. When the grant money dries up, the cooperative fails. Grants are helpful for training or design

assistance. But, a cooperative must be able to operate successfully without grant funding within a few years or it shouldn't be started.

Steering Committee Report

The steering committee should consider any other factors relevant to the creation of the potential cooperative, such as the costs of organizing, distribution of membership, methods of payment to producers, and the capital structure. The steering committee should prepare a report of its findings for potential members. The report need not detail all facts and figures gathered in the study, but it should outline the process used by the committee for its findings and make recommendations for further action.

The steering committee report should be presented to a second meeting of potential members. Each point should be discussed thoroughly, even if it means another meeting is needed. The discussions should be realistic in helping potential members fully understand the possibilities for success and potential problems. The meeting should involve potential members, Extension Service personnel, community leaders, bankers, and others who might be involved with the organization if it is established. If a craft cooperative is considered feasible and sufficient prospective members want to join, the further organizing steps should be taken.

If steering committee report is accepted by potential members, it serves as the blueprint for organizing. Recommendations not accepted should be revised until there is a consensus on the major elements of the new cooperative.

Organizing

Legal Documents—State statutes govern the way that cooperatives are formed. The legal framework of the cooperative consists of the articles of incorporation and bylaws. These documents must be drawn up with care to ensure that they conform to State laws and provide for the desired type of organization.

The articles of incorporation are a statement of the kind of business the cooperative is designed to be. This must be filed with the appropriate State official. The bylaws state the way that the cooperative will do business and must be consistent with the articles of incorporation. They will specify requirements for membership and member responsibilities; methods for calling meetings; voting rights and quorums; number, terms, and responsibilities of directors; dates of the fiscal year; and other provisions for the management of the cooperative.

Bylaws for any cooperative must be drafted to reflect specific needs of potential cooperative members and applicable State statutes. A competent lawyer familiar with cooperative laws should be hired to advise the group on legal procedures for setting up the cooperative. (see Appendix C, Sample Bylaws). After the articles of incorporation have been filed, charter members hold a meeting to adopt the bylaws and elect directors. Again, State statutes dictate the procedures that must be followed, such as time limitations, waivers of notice of the meeting, and other matters.

Board of Directors—The board of directors should meet immediately after adoption of the

bylaws. Among the business matters to be decided at this meeting:

- Elect officers of the cooperative.
- Arrange to print copies of the articles of incorporation and bylaws to distribute to all members.
- Select a bank and authorize officers and employees to handle funds and issue checks.
- Arrange for bonding of officers and employees in accordance with bylaws.
- Arrange for bookkeeping and auditing.
- Arrange for business facilities.
- Adopt procedures for selecting a manager, his/her qualifications, responsibilities, and developing a job description. (see Appendix E.)
- Develop duties and responsibilities of directors, rules for board members, and criteria for separating board and management decisions. (see Appendixes C and E)

Also see the list of Rural Business-Cooperative Service publications dealing with the organizational process, responsibilities of directors, and the operation of cooperatives at the back of this publication.

Other Considerations

In addition to the survey and organization procedures, those forming a cooperative must deal with several other considerations.

Quality Control—Many difficulties and failures of craft cooperatives are associated with the lack of quality control. Consistently high quality products are essential for successful craft marketing.

Numerous procedures have been used to maintain the quality of craft work. The most suitable procedure for any cooperative depends on the size and distribution of the membership, type of marketing activity engaged in, and the variety of crafts produced.

Usually a set of standards is established that specifies the type of items not accepted by the cooperative and the minimum quality acceptable for various craft items. The standards should be clearly defined (in writing or through examples) and understood by the members.

In addition to the standards, a procedure to evaluate the craft work must be developed. This should also be clearly described and accepted by members.

The review procedure should provide for continuous evaluation of the member's work. In cases of rejected work, an explanation for the rejection should be given and provision made for reconsidering the crafts. A committee is usually elected to conduct the quality-control procedure. The committee should consist of members, the manager, and perhaps someone outside the cooperative participating in an advisory capacity. (See previous section on the Work of the Steering Committee.)

The need for quality goes beyond craft products. The entire operation of the cooperative should reflect a concern for high quality. Constant attention must be given to the image created in the cooperative's business forms, brochures, packaging, billing, displays, and other contacts with the public or members.

Management—Successful cooperative management depends on effective teamwork of all three parts of the management team—members, board of directors, and hired

management. Members are the foundation of the cooperative structure and the reason it exists.

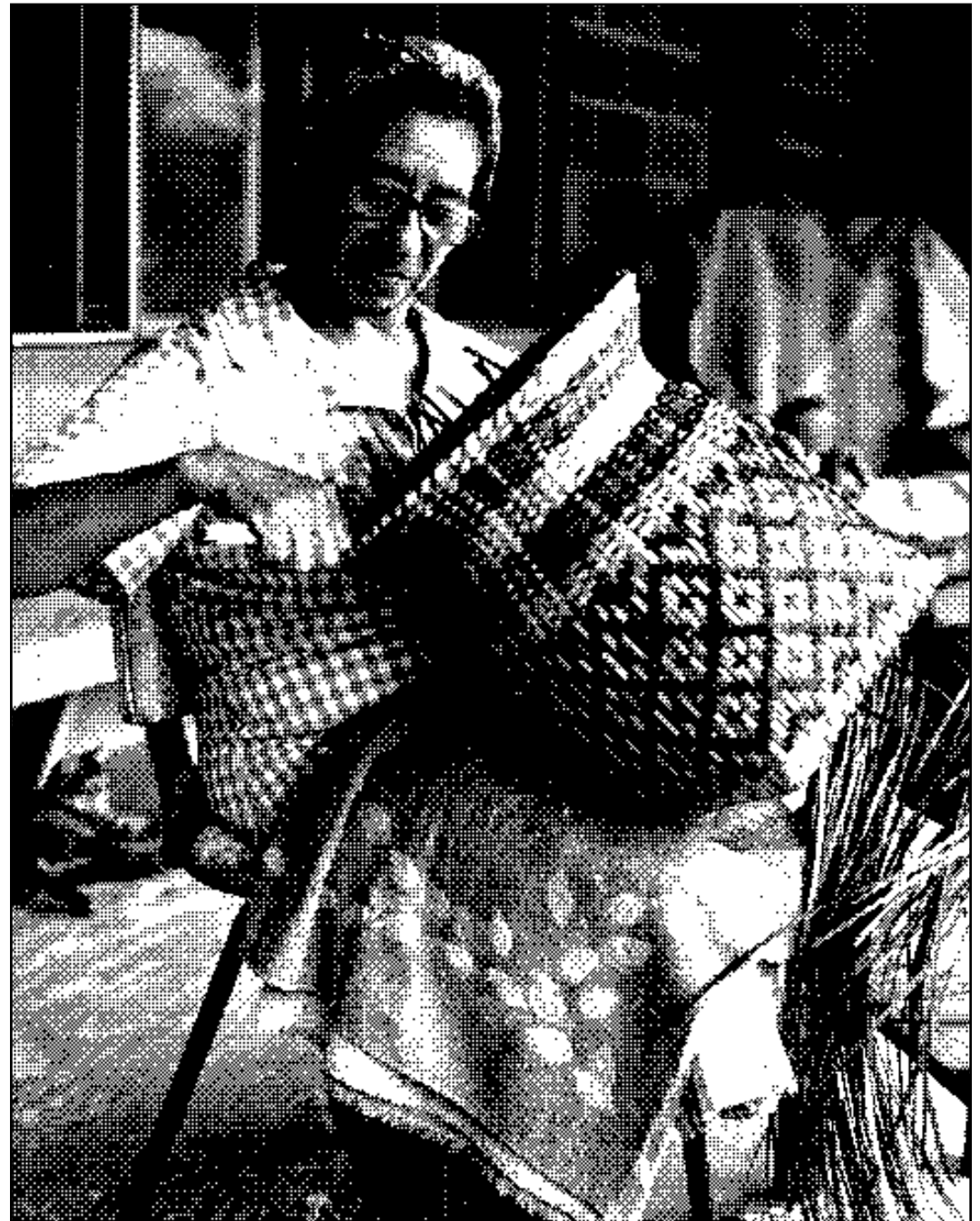
Members have definite responsibilities to do business with it, invest in it, and support it in every way. They should be informed on a regular basis about the cooperative and should communicate their needs to directors.

Directors serve as trustees, establish policies and long-range objectives, decide on programs and courses of action, and, in a general way, direct and guide the activities of the cooperative. They approve budgets, review reports, and arrange for outside audits. Their most urgent role in management, and perhaps the most important, is to hire and evaluate the manager.

The manager is then responsible for selecting staff and organizing activities to obtain the goals and objectives set by the members and directors. The manager is responsible to the directors for carrying out the day-to-day activities of the cooperative and its policy decisions.

The manager should have some technical knowledge about craft quality, as well as general management and marketing skills. The manager must be able to select, train, supervise, and direct employees and be equally adept at working with boards of directors in developing plans and programs to carry out policies and objectives of the cooperative.

One of the specialties of Qualla Arts and Crafts Mutual Inc. is double-weave baskets such as this being made by Eva Wolfe. Qualla is a Cherokee Indian crafts cooperative in Cherokee NC. It retails more than \$500,000 worth of crafts annually. Photo by U.S. Department of Interior, Indian Arts and Crafts Board.



The selection of a manager should be made with great care because he or she is the key employee. The success of the cooperative will depend to a large extent on the manager's ability. Several other RBS publications deal with the responsibilities of management. Appendix E contains a cooperative general manager's job description and board duties and responsibilities. They can be used to define the manager's job and the duties and responsibilities of the board.

Record Keeping—It is essential for all businesses to keep good records, this is especially true of cooperatives because members must be fully informed of how their business is operated. Hired management keeps most of the records, but the board of directors must ensure that these records are accurate and meet the needs of the board and members. If the board is negligent in this responsibility, it may be liable for improper accounting of member funds. Some of the records needed are an annual budget as well as monthly and annual financial records.

Budget—Income and expense projections are prepared by the manager for board approval. The budget's primary purpose is to help management plan sales and inventories and control expenses and margins for the coming year.

Financial Records—The manager and board need monthly records that give accurate, timely, and readily available information on various aspects of the firm's financial condition. At a minimum, records should provide answers to

these questions:

- How much cash was received and from whom? How much was spent and for what? How much cash is on hand and in the bank?
- To whom has credit been granted? How much? What payments have been received and for which account? Which accounts are delinquent? Do these accounts violate credit policies? What actions have been taken to collect these accounts?
- What is the inventory? (Inventory should be kept by units and dollars for each item.) What has been added? What has been removed? How much is in stock? What are the turnover rates and gross margins for inventory categories?
- What are the fixed assets? What is their depreciated value?
- What are the accounts payable? Is the cooperative delinquent on any payments?
- What is the monthly operating statement for each division?
- What is the monthly balance sheet for the entire operation?

Answering these questions is essential to good cooperative management. Keeping good financial records is vital. It is wise to hire a local accounting firm to assist in setting up the book-keeping system. If this is not possible, commercial record keeping systems may be used. Several reliable computer accounting programs are available that can be adapted to meet the needs of a craft cooperative.

At least once a year, an independent auditor should audit the cooperative's records. A financial statement that meets the needs of the board and tax purposes will then be prepared. Additional information on keeping cooperative records can be obtained from RBS.

Taxes—Craft cooperatives are subject to the same taxes as any other. Income tax is paid on that part of net margins paid out as dividends on stock. Income tax is not paid on that part of net margins allocated to patrons, provided that patrons have given prior consent to treat the allocation as income on their tax returns.

The Internal Revenue Service has information regarding the applicable codes and filing regulations. Property taxes, Social Security, unemployment taxes, and necessary license fees must be paid by cooperatives. State sales taxes must be collected and paid quarterly, or more frequently depending on the State law.

General Rules for Success

Just as there is no guarantee for success in any small business, there is no guarantee for the success of a craft cooperative. Observing several basic rules, however, can help assure success.

Study Applicable Laws—Most States have one or more laws that apply to the formation of nonagricultural cooperatives. Copies of these laws can be obtained from an attorney or the proper State official. Internal Revenue Service regulations as well as State and local tax, licensing, and zoning laws must be reviewed. In addition, some craft products come under regulations that might affect the operation of the cooperative. For example, some States have

licensing and labeling requirements for bedding, furniture, and toys.

Get Expert Help—Some aspects of establishing a cooperative require skills that those forming it may not possess, such as legal and accounting expertise. Securing assistance early in the formation process can reduce the risk of difficulties later. Don't postpone securing expert advice until it is too late to use it effectively.

Conduct Sound Operations—A cooperative is a business. Frequent difficulties arise if the operation is handled on a casual basis. Standard business management procedures should be followed. Numerous social benefits may be derived from the successful operation of a cooperative, but it must succeed as a business.

Record Agreements, Contracts, and Commitments in Writing—Cooperatives frequently get started with financial and technical assistance from several sources. Verbal commitments and understandings become confused with personnel and program changes. Avoid confusion by having everything in writing, including the minutes of organizational meetings.

A marketing contract between the members and the cooperative should be initiated to help in planning and implementing an orderly marketing program. A contract eliminates those producers who merely want to use the cooperative as to get higher prices from buyers but care little for improving the cooperative's marketing system. The contract also specifies in legal form what producers can expect from their association. A contract should be initiated by the board

with assistance from legal counsel, before the cooperative initiates a marketing program. A sample marketing contract is contained in Appendix D.

Realistic Evaluations, Projections—Craft production can offer people either a primary or secondary source of income and have a significant role in enhancing the position of craftspeople. But, it cannot be all things to all people or completely provide for all the needs of craftspeople. Recognize the limitations and avoid promises of services or benefits that cannot be met realistically. To avoid problems, producers should be careful to organize a cooperative with others who have similar economic needs and goals.

High Quality Standards—The image of the cooperative as a source of quality craft products and as a sound, reliable business is critical to its success. Most craft cooperatives require producers to pass the cooperative's quality standards before they can become a member. Whatever membership requirements a cooperative enacts, it should avoid conflict with statutory requirements or public policy. For example, a cooperative should not discriminate on the grounds of race, color, sex, or national origin.

Sources of Assistance

Craft cooperatives have been started with assistance from a wide variety of sources. No single source can provide everything needed.

Much work must be done by those who will use the cooperative. Here is a list of some of the programs or agencies that might provide assistance.

Federal Agencies—Some Federal Government programs offer assistance to developing craft cooperatives and other small businesses. A listing of Federal and State organizations is contained in the International Directory of Resources for Artisans which is available from:

The Crafts Center
1001 Connecticut Avenue NW, Suite 525
Washington, DC 20036
email:craftsdc@erols.com

The Crafts Center, a nonprofit membership organization serving the interests and needs of low-income artisans, provides technical assistance and information to help artisans. A comprehensive listing and description of Federal programs in the arts and humanities is contained in the Catalog of Domestic Federal Assistance, available at most local Federal offices and libraries. Here are some principle ones you may be working with.

Rural Business-Cooperative Service (RBS)—The U.S. Department of Agriculture's RBS devotes its total effort to preserving and improving the mainstays of American agriculture—the family farm and rural community. Its direct role is in providing knowledge to improve the effectiveness and performance of the cooperative business through research, technical assistance, and education. Research is conducted to acquire and maintain the base of information necessary for RBS to give

farmers relevant and expert assistance pertaining to their cooperatives. Studies of functioning cooperatives concentrate on such aspects as their financial, structural, managerial, policy, member, legal, social, and economic activities.

Technical assistance is provided in response to specific problems. Requests may come from a few craft producers directly wanting to organize a cooperative, or from the board of an established craft cooperative. Help and education is given on business organization, operating efficiency, and member duties and responsibilities. Work can involve determining the economic feasibility of new facilities or adding new products or services. Advice may be given on the merits of merging organizations or forming new ones. Studies cover the full range of decision-making found in a cooperative business enterprise. For assistance, contact:

U.S. Department of Agriculture
Rural Business-Cooperative Service
Deputy Administrator
1400 Independence Ave., SW, Stop 3250
Washington, DC 20250-3250
email: www.coopin@usda.gov

The rural Business-Cooperative Service has a distinct mission in education and information. It is assigned the responsibility by the Cooperative Marketing Act of 1926 to promote the knowledge of cooperative principles and practices and to cooperate, in promoting such knowledge, with educational and marketing agencies, cooperative associations, and others.

Continuous education ensures that the cooperative will stay alive and continue serving

its producers. This practice recognizes that even member-owners can't support their cooperative if they don't understand it. A continuous education program is needed because of: (1) a turnover in membership, and (2) the need to update technical skills in order to operate an efficient business with competent employees, directors, and management.

Cooperative State, Research, Education and Extension Service (CSREES)—In cooperation with land-grant universities and the State Cooperative Extension Service, the USDA's CSREES conducts a variety of educational and technical assistance activities in crafts. The programs vary from one State to another. Contact the local Extension Office listed in the telephone directory, the CSREES director at a State land-grant college or university, or:

Cooperative State Research,
Education and Extension Service
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250-0900
email: www.reeusda.gov

National Endowment for the Arts (NEA)—The NEA, primarily through Folk and Traditional Arts Programs, makes grants to craftspeople and organizations. Detailed information about programs, application procedures, and deadlines is available from:

Director
Folk and Traditional Arts
National Endowment for the Arts
1100 Pennsylvania Avenue, NW, Suite 720

Washington, DC 20004
email: www.arts.endow.gov

Bureau of the Census—Information that can be helpful in selecting a store site is available from the bureau. The Census of Retail Trade contains such data as the number of gift shops by State, their sales, and the number of paid employees. The Census on Population and Housing describes a population or potential customers by their age, sex, income, education, occupation, etc. The 12 regional data-user service centers sponsor frequent workshops on how to interpret this data. For more information, contact your local library or write:

U.S. Department of Commerce
Bureau of the Census
Customer Service
Washington, DC 20233
email: www.census.gov

Indian Arts and Crafts Board—This board is responsible for several programs that provide technical assistance and educational material on Native American crafts. For information, contact:

U. S. Department of the Interior
Indian Arts and Crafts Board
General Manager
1849 C Street, NW, Stop 4004
Washington, DC 20240

Small Business Administration (SBA)—SBA provides financial, technical and management assistance to help Americans start, run, and grow their business. Management counseling is provided by business executives and



Watermark Association of Artisans, Inc., Camden, NC., sells its crafts throughout the world. The ribbons point to countries that have purchased crafts from Watermark. The items on the tables are samples of orders ready to be shipped.

professionals through SCORE (Service Corps of Retired Executives). Additional counseling that encompasses a variety of government and university resources is available through the Small Business Development Center. Pre-business training workshops, sometimes held for a nominal fee, are taught at the SBA district office or at local universities. SBA publishes the Small Business Directory, a list of publications and videotapes on how to start and manage a successful small business. Topics include financial management, management planning, marketing, and product promotion. For more information, contact your district SBA office or write to:

Small Business Administration
409 Third Street, SW
Washington, DC 20416
Phone: 1-800-U-ASK-SBA
email:www.sba.gov

State and Local Agencies—Many of the Federal agencies mentioned earlier have counterpart State or regional offices. In addition, the following might be considered:

- State departments of commerce, industrial development, or economic development.
- State arts councils or commissions.
- State agencies on aging.
- Land-grant universities.
- Local senior centers.
- Local community action, development agencies, and planning agencies.
- State cooperative councils, and
- Other agencies and organizations, including:

American Craft Council
21 S. Eltings Corner Road
Highland, NY 10019
(800) 836-3470

Aid to Artisans, Inc.
14 Brick Walk Lane
Farmington, CT 06032

Volunteer Lawyers for the Arts
1 E. 53rd St., Sixth Floor
New York, NY 10019

American Indian Arts
and Crafts Association
122 La Veta N.E., Suite B
Albuquerque, NM 87108

Artists Equity Association
501 7th Street, NW
Washington, DC 20004

National Cooperative Business
Association
1401 New York Avenue, NW,
Suite 1100
Washington, DC 20005

- Other books and magazines of interest include:
 - The Crafts Report Magazine
 - Photographing your Crafts
 - The Law in Plain English
for Craftspeople
 - Business Forms and Contracts
for Craftspeople

To order write:
The Crafts Report
P. O. Box 1992
Wilmington, DE 19899-1992
(800) 777-7098
email:www.craftsreport.com

Other Books:

The Business of Crafts: The Complete Directory of Resources for Artisans, by The Crafts Center
Crafts Market Place: Where and How to Sell Your Crafts, by Argie Manolis (Editor)
Handmade for Profit: Hundreds of Secrets to Success in Selling, by Barbara Brabec

Available from USDA/RBS:

How to Start a Cooperative, CIR 7;
Tax Treatment of Cooperatives, CIR 23;
Sample Policies for Cooperatives, CIR 39;
Sample Legal Documents for Cooperatives, CIR 40;
Cooperatives 101: An Introduction to Cooperatives, CIR 55;
Understanding Cooperative Bookkeeping and Financial Statements, CIR 57; and
Directory of U.S. Arts and Crafts Cooperatives, SR 40.

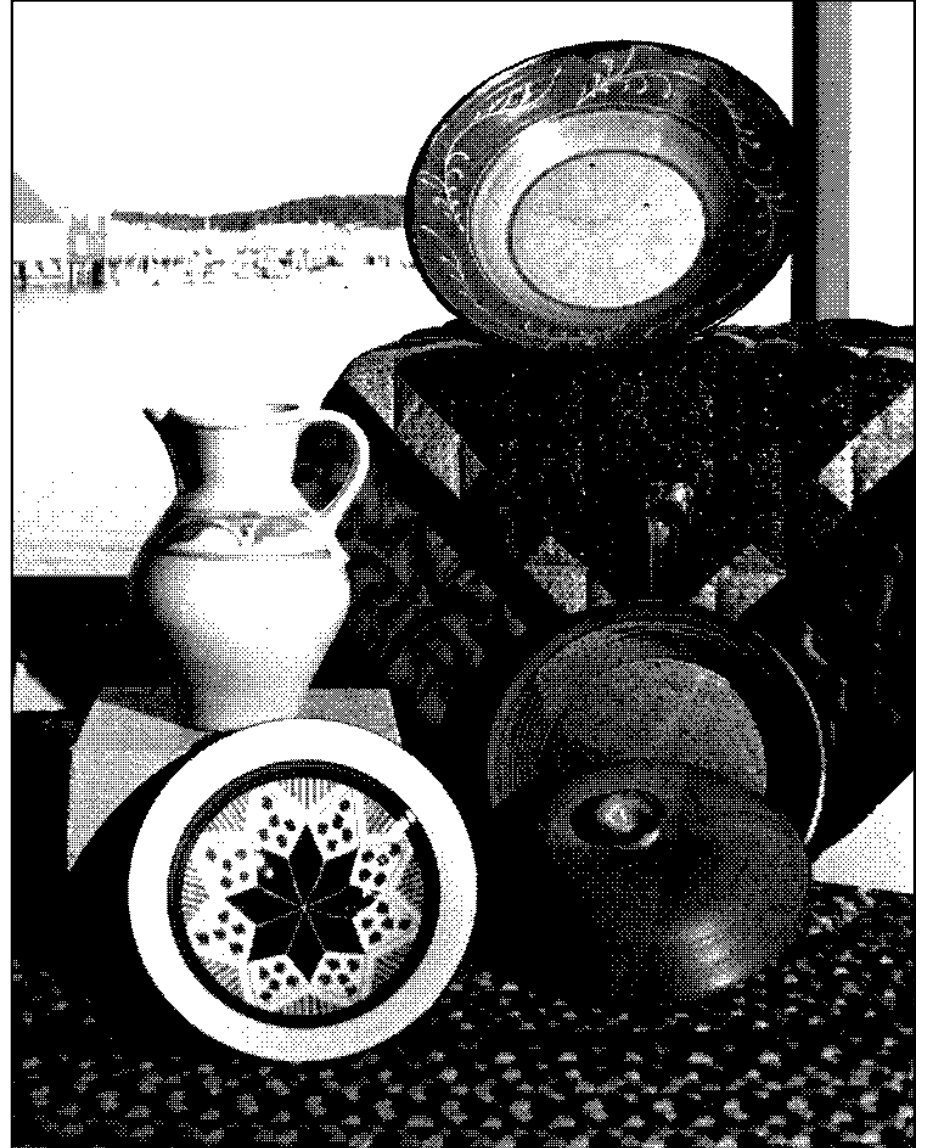
To order write
USDA/Rural Business-Cooperative Service
Cooperative Development Division
1400 Independence Avenue, SW, Stop 3254
Washington, DC 20250-3254
email: www.coopinfo@usda.gov



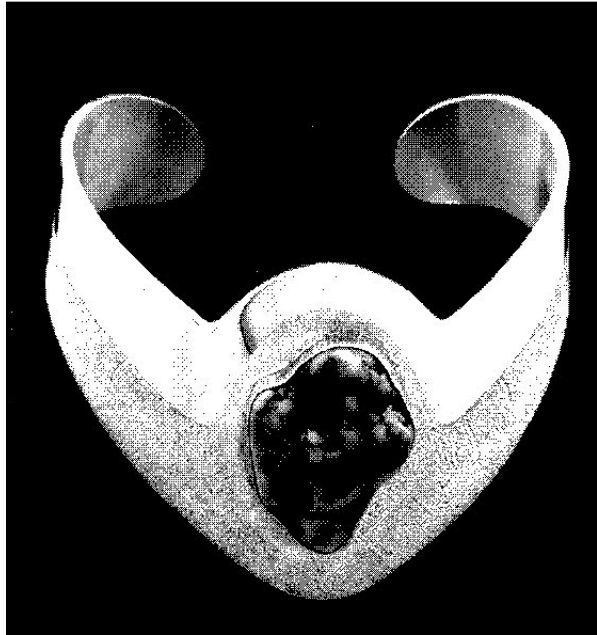
Cabin Creek Quilts of Cabin Creek, WV, specializes in coordinated quilts, pillows, and wallhangings.

Eastern Bay Cooperative Gallery in Stonington, ME, is owned and operated by 40 Penobscot Bay artists.

Opposite page – An overview of the gallery owned by members of a cooperative called MADE in Mendocino, Inc. The cooperative is at a winery in Hopland, CA. Photo by Tom Liden.







This silver bracelet with turquoise nugget in raised setting is offered by Hopi Arts and Crafts Silvercraft Cooperative Guild of Second Mesa, AZ. Photo by U.S. Department of Interior, Indian Arts and Crafts Board.



Since coming to the United States, some Among women have sold their textiles through cooperatives.

Appendix A

Sample Craft Producer Survey Questionnaire

The following questionnaire is an example of one that might be used to gather basic information to help assess the need for a craft cooperative. It can be modified to fit the particular needs of your group.

The letter of explanation preceding the questionnaire is important. In it, you should explain to potential members the purpose of the questionnaire and how the information will be used. It should be filled out by the potential member and the completed questionnaire returned to the steering committee. If the information is gathered through an interview, the questions may be more detailed.

Date _____

Dear Craft Producer:

Several craft producers in _____ County(ies) are considering the organization of a craft cooperative to market craft products and/or purchase supplies in bulk. It is our hope that by working together we can receive a better price for our product or save money on our supplies. There may also be other activities we can do together.

Before we start, it is important to decide if enough interest exists for the cooperative to be successful. We are asking craft producers like you to tell us if they are interested in the idea of a craft cooperative and, if so, how much business they might do with the cooperative.

Please fill out the form and return it to the address on the bottom. Filling out a questionnaire does not mean that you must join the cooperative or that the cooperative will be organized. It is only to help us decide if enough people are interested. We appreciate your taking time to fill out the questionnaire and returning it to us.

Sincerely,

J. Doe
Chairman of Steering Committee

Survey Form

Address: J. Doe
Craft Cooperative Survey Committee
That Town
This State 00000

1. Name _____ Date _____

2. Address _____

(Street and number/route and box number) _____

City, State, Zip, County _____

3. Telephone: Day _____ Night _____

4. About how much time do you spend per week making your craft items? _____ hours/week

5. If a cooperative is formed, would you be willing to expand your production?

Yes No Uncertain

6. If yes, would you need additional help to produce your crafts?

Yes No Uncertain

7. What craft items do you produce?

8. What materials do you work with?

Wood Natural Items

Fibers Clay

Glass Gold or Silver

Leather Fabric

Other Metals Other (specify)

9. About how much did you spend on material last year? \$ _____

10. Would you be interested in purchasing part of your supplies through a cooperative?

Yes No

If yes: What supplies would you be interested in purchasing?

11. Did you sell any craft work during the past year? Yes No
 If yes: About how many dollars' worth did you sell?
 Retail \$ _____ Wholesale \$ _____
 About what part? All Half ___ Percent
12. Where do you sell your crafts? (Check all that apply)
 Fair/Show Show/shop Wholesale Other
13. What was the price range of the three most important items you produced?
- | Item | Price range |
|-------|----------------------|
| _____ | \$ _____ to \$ _____ |
| _____ | \$ _____ to \$ _____ |
| _____ | \$ _____ to \$ _____ |
14. How did you learn to produce your craft?
 Taught myself High school or Vocational & Technical school
 Taught by member of family College or university
 Workshop or training session
15. Would you like additional training? Yes No
 If yes: What type of training?
 New techniques/design Marketing/business
 Production Other (specify)
16. Are you willing to sign a marketing agreement committing yourself to sell crafts through the cooperative? Yes No
17. Banks generally require respective members to make initial investments of 20-50 percent initial capital needed to purchase/build facilities and finance operations. Are you willing to make an initial investment in the cooperative in proportion to your projected use?
 Yes No
18. Per-unit retains are a method of supplying continuing equity capital to the cooperative. They are deducted from patrons' sales proceeds in proportion to the volume of products they market through the cooperative. Are you willing to finance the cooperative with per-unit retains? Yes No

Appendix B

Table 1—Operating expenses ratios for a hypothetical gift store with \$150,000 annual sales, \$40,000 net worth, and 2,000 square feet

	Percent	Dollars
Sales:	100.00	150,00
Cost of sales		
Merchandise	49.0	73,500
Freight	4.0	6,000
Total	53.0	79,500
Gross margin = A	47.0	70,500
Expenses:		
Owner or manager wages	12.0	18,000
Payroll	8.0	12,000
Rent	4.0	6,000
Advertising	3.0	4,500
Supplies	2.1	3,158
Depreciation	1.5	2,250
Utilities	1.5	2,250
Taxes-payroll	1.3	1,950
Taxes-other	1.1	1,650
Repairs and maintenance	1.1	1,650
Interest	1.0	1,500
Auto expense	1.0	1,500
Travel and entertainment	1.0	1,500
Insurance	0.9	1,350
Professional fees	0.8	1,200
Collection expense	0.7	1,015
Telephone	0.5	750
Miscellaneous	1.3	1,950
Total = B	42.8	64,200
Net margin or (loss) before taxes: A - B = 4.2		6,300

Compiled by Paul Ungrodt, Jr., President of Ideation, Inc., Ann Arbor, Michigan.

APPENDIX C

Sample Bylaws

This sample set of bylaws is presented to show the type of information that should be included. The bylaws should be changed to reflect the desired working arrangements of your cooperative. However, they must be consistent with the articles of incorporation and requirements of applicable State statutes.

Other information about bylaws can be found in Cooperative Information Report 40, Sample Legal Documents for Cooperatives, Rural Business-Cooperative Service, USDA.

Bylaws

(Name) _____

(County and State) _____

Article I. Purpose

The purpose for which this corporation is formed and the powers it may exercise are set forth in the article of incorporation of the corporation.

Article II. Membership

Section 1. Qualifications

Any craft producer who agrees to be a patron of the association, signs a marketing agreement with the association, purchases one share of common stock, and meets other conditions as may be prescribed by the board of directors, may become a member of the association.

No craft producer may be excluded from membership or participation in the cooperative based on race, color, sex, or national origin.

All applications for membership must be approved by the board of directors. Member status is effective as of the time the board approves the application for membership.

Note: In non-stock cooperatives, this section should include a discussion of membership fees. The amount of the membership fees should be set by a majority vote of the board of directors and set forth in the minutes as to the amount.

Section 2. Suspension or Termination

In the event the board of directors of the association shall find, following a hearing, that any of the common stock of this association has come into the hands of any person who is not eligible for membership, or that the holder thereof has ceased to be an eligible member, or that such holder has not marketed through the association the products covered by a marketing agreement with the association, or not otherwise patronized the association for a period of () years, or otherwise violated the articles of incorporation, bylaws, or other agreements made with the association, the association may suspend such holder's rights as a member and terminate the membership.

When a membership is terminated, the association shall repurchase the member's share of common stock for par value. The holder shall return to the association the certificate evidencing the holder's share of stock. If such holder fails to deliver the certificate, the association may cancel such certificate on its books and records, and the certificate is then null and void.

A suspended or terminated member shall have no rights or privileges on account of any stock held, nor vote or voice in the management

or affairs of the association other than the right to participate in accordance with law in case of dissolution.

Article III. Meetings of Members

Section 1. Annual Meeting

The annual meeting of the members of this association shall be held in the city of _____, during the month of _____ of each year, at such time and in such place as the board of directors shall designate, or on any date the board shall designate at least thirty (30) days in advance of the date specified above.

Section 2. Special Meetings

Special meetings of the members of the association may be called at any time by order of the board and shall be called on written request of at least _____ members, or at least _____ percent (%) of the membership, whichever is a greater number. (Check with State statutes for percentage.)

Section 3. Notice of Meetings

Written or printed notice of every regular and special meeting of members shall be prepared and mailed to the last known post office address of each member not less than () days before such meeting. Such notice shall state the object or objects thereof and the time and place of meeting. No business shall be transacted at any special meeting other than that referred to in the notice.

Section 4. Voting

Unless otherwise stated in the articles of incorporation, or these bylaws, or required by

applicable law, all questions shall be decided by a vote of a majority of the members voting thereon.

Each member shall be entitled to only one vote. A member must be present to vote. Voting by mail shall not be permitted. Proxy voting shall be allowed. Each proxy shall be in writing, and no member shall vote more than one proxy. Cumulative voting is not permitted.

If a membership is held by a partnership, corporation, or other legal entity, the member shall designate in writing the person who shall vote on behalf of the member. That designation shall remain in effect until written notice of a properly authorized change in the designated voter shall be received by the association.

Section 5. Quorum

A quorum at annual special membership meetings shall consist of () members or percent (%) of the membership, whichever is a larger number. (Check with State Statute for percentage.)

Section 6. Order of Business

The order of business at the annual meeting shall be:

- 1 Roll call, followed by proof of due notice of meeting.
- 2 Amendment of the articles of incorporation and amending and/or adopting the bylaws (if required).
- 3 Reading and disposal of minutes.
- 4 Annual reports of the board and committees.
- 5 Unfinished business.
- 6 Community reports.
- 7 New business.

8 Election of directors to fill expiring terms.

9 Adjournment.

Article IV. Directors and Officers

Section 1. Number and Qualifications of Directors

The association shall have a board of directors of () members of the cooperative. Each director elected shall be a member of this association in good standing.

No person shall be eligible to be a director if that person is in competition with, or is affiliated with any enterprise that is in competition with, the association. If a majority of the board of directors of the association finds at any time following a hearing that any director is so engaged or affiliated, that person shall thereupon cease to be a director.

No director after having served for () consecutive full term(s) shall be eligible to succeed him or herself, but after a lapse of () year(s) shall again be eligible.

Section 2. Election of Directors

At the first annual meeting of the members of this association, directors shall be elected to succeed the incorporating directors. () director(s) shall be elected for one (1) year; () directors for two (2) years; and () directors for three (3) years. At each annual meeting thereafter, new directors shall be elected for a term of three (3) years each to succeed those directors whose terms are expiring.

All directors shall be elected by secret ballot, and the nominee(s) receiving the greatest number of votes shall be elected.

Section 3. Election of Officers

The board of directors shall meet within seven (7) days after the first election, and within seven (7) days after each annual election, and shall elect by ballot a president, vice president, secretary, and treasurer, each of whom shall hold office until the election and qualification of a successor, unless earlier removed by death, resignation, or for cause.

The president and vice president shall be members of the board of directors. The secretary and treasurer need not be directors or members of the association.

Section 4. Vacancies

Whenever a vacancy occurs in the board of directors, other than from the expiration of a term of office, the remaining directors shall appoint a member to fill the vacancy until the next regular meeting of the members. If the term of the vacating director does not expire at that regular member meeting, a special election shall be held to select a director to fill the year or years remaining in that term.

If one or more officer positions become vacant, such offices shall be filled by the board of directors, through election by ballot, at either a regular or special meeting of the board.

Section 5. Regular Board Meetings

In addition to the meetings mentioned above, regular meetings of the board of directors shall be held monthly, or at such other times and at such places as the board may determine.

Section 6. Special Board Meetings

A special meeting of the board of directors shall be held whenever called by the president or by a majority of the directors. Only the business

specified in the written notice shall be transacted at a special meeting. Each call for a special meeting shall be in writing, shall be signed by the person or persons calling the meeting, shall be addressed and delivered to the secretary, and shall state the time and place of such meeting.

Section 7. Notice of Board Meetings

Oral or written notice of each meeting of the board of directors shall be given each director by, or under the supervision of, the secretary of the association not less than () hours prior to the time of meeting. But such notice may be waived by all the directors, and their appearance at a meeting shall constitute a waiver of notice.

Section 8. Quorum

A majority of the board of directors shall constitute a quorum at any meeting of the board

Section 9. Reimbursement and Compensation

The association shall reimburse directors for all reasonable expenses incurred in carrying out their duties and responsibilities.

The compensation, if any, of the members of the board of directors shall be determined by the members of the association at any annual or special meeting of the association.

No member of the board of directors, or member of the immediate family of any board member, shall occupy any position in the association on regular salary.

Section 10. Removal of Directors

Whenever any director shall fail to meet the qualifications as described in Section 1 of this Article, or fails to attend three (3) consecutive board meetings, either regular or special, without just cause and provided that notice of such

meetings has been given in accordance with these bylaws, then it shall be the duty of the board to remove said director and to fill the vacancy in accordance with Section 4 of this Article.

Members, through petition noting the charges and signed by at least () or () percent (%) of the membership, whichever is a greater number, may request the removal of any member of the board. Such director shall be notified in writing of the charges and given an opportunity to be heard at a membership meeting of the association. Removal of a director shall require a vote of () % of members voting. Any vacancy resulting from such action shall be filled by nomination and vote of members at such meeting.

Article V. Duties of the Board of Directors

Section 1. Management of Business

The board of directors shall have general supervision and control of the business and the affairs of the association and shall make all rules and regulations not inconsistent with law, the articles of incorporation, or bylaws for the management of the business and the guidance of the members, officers, employees, and agents of the association.

Section 2. Employment of Manager

The board of directors shall have power to employ, define duties, fix compensation, and dismiss a manager with or without cause at any time. The board shall authorize the employment of such other employees, agents, and counsel as it, from time to time, deems necessary or advisable in the interest of the association. The man-

ager shall have charge of the business of the association under the direction of the board of directors.

Section 3. Bonds and Insurance

The board of directors shall require the manager and all other officers, agents, and employees charged by the association with responsibility for the custody of any of its funds or negotiable instruments to give adequate bonds. Such bonds, unless cash security is given, shall be furnished by a responsible bonding company and approved by the board of directors, and the cost thereof shall be paid by the association.

The board of directors shall provide for the adequate insurance of the property of the association, or property that may be in the possession of the association, or stored by it, and not otherwise adequately insured, and, in addition, adequate insurance covering liability for accidents to all employees and the public.

Section 4. Accounting System and Audit

The board of directors shall have installed an accounting system which shall be adequate to meet the requirements of the business, and shall require proper records to be kept of all business transactions.

At least once in each year, the board of directors shall secure the services of a competent and disinterested public auditor or accountant, who shall make a careful audit of the books and accounts of the association and render a report in writing thereon, which report shall be submitted to the directors and the manager of the association and made available to the members of the association.

This report shall include at least a balance sheet showing the true assets and liabilities of the association and an operating statement for the fiscal period under review.

Section 5. Depository

The board of directors shall select one or more banks to act as depositories of the funds of the association and determine the manner of receiving, depositing, and disbursing the funds of the association and the form of checks and the person or persons by whom they shall be signed, with the power to change such banks and the person or persons signing such checks and the form thereof at will.

Section 6. Committees

The board of directors may, at its discretion, appoint from its own membership an executive committee of () members and determine their tenure of office and their powers and duties. The board of directors may delegate to the executive committee all or any stated portion of the functions and powers of the board, subject to the general direction, approval, and control of the board. Copies of the minutes of any meeting of the executive committee shall be mailed to all directors within seven (7) days following such meeting.

The board of directors may, at its discretion, appoint other committees as it deems appropriate.

Article VI. Duties of Officers

Section 1. Duties of President

The president shall (1) preside over all meetings of the association and of the board of directors, (2) call special meetings of the board of directors, and (3) perform all acts and duties

usually performed by a presiding officer. The president shall also appoint such committees as the board of directors may deem advisable for the proper conduct of the association, except the Standards/Pricing and Nominating Committees. These latter committees shall be elected by the board

Section 2. Duties of Vice President

The vice president shall act as chairperson of the Standards/Pricing Committee. In the absence or disability of the president, the vice president shall perform the duties of the president, provided, however, that in case of death, resignation, or disability of the president, the board of directors may declare the office vacant and elect any eligible person president.

Section 3. Duties of Secretary

The secretary shall keep a complete record of all the meetings of the association and of the board of directors and shall have general charge and supervision of the books and records of the association, other than financial. The secretary shall sign papers pertaining to the association as authorized or directed by the board of directors. The secretary shall serve all notices required by law and by these bylaws and shall make a full report of all matters and business pertaining to the office and present this report to the members at the annual meeting. The secretary shall keep the corporate seal and all books of blank certificates, complete and countersign all certificates issued, and affix the corporate seal to all papers requiring a seal; shall keep a complete membership list; shall keep complete stock ownership records; shall act as secretary to the Executive Committee; shall make all reports required by law; and shall perform other such duties as may

be required by the cooperative or the board of directors. Upon the election of a successor, the secretary shall turn over all books and other property belonging to the association.

Section 4. Duties of Treasurer

The treasurer shall be responsible for the keeping and disbursing of all monies of the association and shall keep accurate books of accounts of all transactions of the association. The treasurer shall perform such duties with respect to the finances of the association as may be prescribed by the board of directors. At the expiration of his/her term of office, the treasurer shall promptly turn over to his/her successor all monies, property, books, records, and documents pertaining to his/her office or belonging to the association.

Section 5. Duties and Powers of the Executive Committee

The Executive Committee shall be authorized to act in place of the board between board meetings, with its actions subject to review by the board. The executive committee shall meet as frequently as the efficient operation of the association requires, or upon call by the president and/or manager.

Article VII. Operation at Cost and Members' Capital

Section 1. Operation at Cost

The association shall at all times be operated on a cooperative service-at-cost basis for the mutual benefit of its member patrons.

Section 2. Margin Allocation

In order to induce patronage and to assure that this association will operate on a service-at-cost basis in all its transactions with its members,

the association is obligated to account on a patronage basis to all member patrons on an annual basis for all amounts received from business conducted with members on a patronage basis, over and above the cost of providing such services, and making reasonable additions to reserves. Such allocation shall be on the basis of the volume (or dollar value) of product marketed through (and/or purchased from) the association.

The association is hereby obligated to pay all such amounts to the patrons in cash or by credits to a capital account of each member patron.

Section 3. Transfer

No assignment or transfer of any amount credited to the capital account of a patron shall be binding on this association without the consent of the board, nor until it shall have been entered in the books of this association.

Section 4. Per-Unit Retains

Each member also agrees to provide capital in such amounts as determined by the board of directors based on the dollar value of product marketed through the association. Such per-unit retains shall be allocated to the member's capital credit account.

Section 5. Dividends

No dividends shall be paid on any capital credits.

Section 6. Records and Documentation

The books and records of the association shall be set up and kept in such a manner that, at the end of each fiscal year, the amount of capital,

if any, so furnished by each member is clearly reflected and credited in an appropriate record to the capital account of each member.

The association shall, within eight and one-half (8-1/2) months after the close of each fiscal year, notify each member of the capital so credited to the member's account. The notice shall be in the form of a written notice of allocation or per-unit retain certificate (as those terms are used in Subchapter T of the Internal Revenue Code) or other appropriate written document. The board shall have discretion to issue such notices and certificates in either "qualified" or "non-qualified" form as permitted by the Internal Revenue Code and other applicable law.

Section 7. Fiscal Year

The fiscal year of this association shall commence on the first day of (month) and end on the last day of (preceding month).

ARTICLE VIII. Equity Redemption

Section 1. Regular Redemption, Revolving Fund

If, at any time, the board shall determine that the financial condition of the association will not be impaired thereby, capital credited to members' accounts may be redeemed in full or in part. Any such redemption of capital shall be made in order of priority according to the year in which the capital was furnished and credited, the capital first received by the association being first redeemed.

Section 2. Discretionary Special Redemption

Notwithstanding any other provision of these bylaws, the board, at its absolute discretion, shall have the power to retire any capital credited to members' accounts on such terms

and conditions as may be agreed upon by the parties in any instance in which the interests of the association and its members are deemed to be furthered thereby and funds are determined by the board to be available for such purposes.

ARTICLE IX. Consent

Each person who hereafter applies for and is accepted to membership in this association, and each member of this association on the effective date of this bylaw who continues as a member after such date, shall, by such act alone, consent that the amount of any distributions with respect to his/her patronage occurring after the effective date of this bylaw, which are made in qualified written notices of allocation or qualified per-unit retain certificates (as defined in 26 U.S.C. 1388), and which are received by him/her from the association, will be taken into account by him/her at their stated dollar amounts in the manner provided in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation and per-unit retain certificates are received by him/her.

Written notification of the adoption of this Article, a statement of its significance, and a copy of the provision shall be given separately to each member and prospective member before membership in the association.

ARTICLE X. Nonmember Business

This association may conduct business with nonmembers on either a patronage or non-patronage basis. However, this association shall not market the products of nonmembers in an amount the value of which exceeds the value of the products marketed for members. It shall not purchase supplies and equipment for nonmem-

bers in an amount the value of which exceeds the value of the supplies and equipment purchased for members.

ARTICLE XI. Nonpatronage Income

The nonpatronage income of the association shall be its gross receipts derived from all sources which under law do not qualify as patronage income, less all expenses properly attributable to the production of such nonpatronage sources of income and all income taxes payable on such receipts by the association. Nonpatronage income shall be used in behalf of the association and its members in accordance with such lawful purposes, including assignment to an unallocated reserve account and allocation in whole or in part to members, as may be determined by the board of directors.

ARTICLE XII. Losses

Section 1. Patronage Losses

In the event the association suffers a loss during any year on business conducted with or for patrons, such loss may be apportioned among the patrons during the year of loss so that such loss will, to the extent practicable, be borne by the patrons of the loss year on an equitable basis. The board shall have full authority to prescribe the basis on which capital furnished by patrons may be reduced or such loss otherwise equitably apportioned among the patrons. In the event of a patronage loss in one or more departments or divisions of the operation of this association, but not so much as to cause an overall loss for the fiscal year, such loss or losses may be prorated against each of the remaining profitable departments on the basis of their respective percentage of the net margins during such fiscal year.

Section 2. Nonpatronage Losses

If, in any fiscal year, the association incurs a loss other than on patronage operations, such loss may be charged against any reserve accumulated from nonpatronage earnings in prior years.

Section 3. General Provisions

The board of directors shall have no authority to make assessments against members. This section shall not be construed to deprive the association of the right to carry backward or forward losses from any source whatsoever in accordance with the Internal Revenue Code or State taxing statutes.

ARTICLE XIII. Dissolution and Property Interest of Members

Upon dissolution, after all debts and liabilities of the association shall have been paid, all shares of preferred stock and common stock redeemed, and all capital furnished through patronage shall have been retired without priority on a pro rata basis, the remaining property and assets of the association shall be distributed among the members and former members in the proportion which the aggregate patronage of each member bears to the total patronage of all such members insofar as practicable, unless otherwise provided by law.

ARTICLE XIV. Indemnification

The association shall indemnify its officers, directors, employees, and agents to the fullest extent possible under the provisions of the (applicable State law), as it may be amended from time to time.

The association may purchase liability insurance coverage for any person serving as an officer, director, employee, or agent to the extent permitted by applicable State law.

ARTICLE XV. Amendment

If notice of the character of the amendment proposed has been given in the notice of meeting, these bylaws may be altered or amended at any regular or special meeting of the members by the affirmative vote of () of the members present or voting by proxy.

APPENDIX D

Sample Marketing Agreement

(For more details on marketing agreements, see Cooperative Information Report 40, Sample Legal Documents for Cooperatives, available from USDA's Rural Business-Cooperative Service.)

I hereby agree to deliver to _____ (Name of craft cooperative) the following items, to be marketed wholesale and/or retail at the discretion of the management:

Quantity	Item	Price

by (date), unless terminated in writing by either party within thirty (30) days of specified date. The association agrees to market said crafts in the manner described herein.

As a member producer of _____ (name of cooperative) I agree to:

1. Be bound by the cooperative's articles of incorporation, bylaws, rules and regulations now or hereafter adopted.
2. Agree to offer all of my approved products to the cooperative first, before offering them to any other market.
3. Abide by the association's price structure that in the event I produce more items (or a volume of items) than the association can sell, I can sell to another market at a price no less than the association's price. If I sell to an individual, I must sell at retail price.
4. Appoint the association my agent to sell all the crafts contracted for which have been approved by the Standards Committee. After approval, all products received by the association will be inspected for quality and workmanship; I will accept the return of unsatisfactory products.
5. Deliver such crafts at such time and to such places as may be prescribed by the association, or its representative.
6. Notify the association of any lien on the products delivered.
7. Sell to the association only these products designed and contracted for by the association.
8. Pay the cooperative a penalty on any crafts not delivered as agreed in this contract. The penalty would be equal to the gross margin lost to the cooperative by the undelivered crafts, plus any legal fees it incurs in the collection of the penalty.
9. Provide my patterns/designs, for approved craft products, to the association, and/or I will assist in training other members to meet market needs.

The Association agrees to:

1. Accept craft producers as members when their products have been approved by the Standards Committee.
2. Act as agent for the marketing of products of the member producer as herein provided.
3. Dispose of producer's crafts in a manner deemed to be most advantageous for its members.
4. Account to the producer in accordance with this contract for all amounts received from the sale of these products.

Date _____

Producer's Signature _____

Print Name _____

Address _____

Street and number/route and box number _____

City _____ State _____ Zip _____ County _____

Social Security Number _____

Telephone:Day _____ (Night) _____

Accepted this _____ day of _____, 20____

(Name of Craft Cooperative) _____

By _____, Manager

APPENDIX E

Cooperative General Manager's Job Description and Board Duties and Responsibilities

Manager's Job Description

One of the most important decisions a cooperative board of directors makes is choosing a manager, delegating responsibilities and evaluating job performance. Boards of directors set policy. Managers carry out policy decisions set by the board.

The manager has specific responsibility in planning, organizing, directing, coordinating, and controlling operations of the cooperative. For the board of directors to function effectively, it must agree on specific manager responsibilities for day-to-day operations as well as the long-range implementation of policy.

By following a set plan or job description, both the board and manager have guidelines to evaluate the manager's performance.

The cooperative's membership has delegated to the board of directors responsibility for conducting all business operations. The board, in turn, expects a manager to carry on day-to-day business within set policy guidelines. The board looks to the manager to have an effective operation that produces desired net margins, maintains cooperative assets, provides assistance and guidance to the board, and develops desired growth in sales and volume. The manager is responsible to the board of directors.

To attain this objective, the following specific manager's duties are outlined:

Planning

1. Make policy recommendations to the board in all areas of management.
2. Analyze the potential of and make recommendations on products or services the cooperative will provide.
3. Prepare operating and capital requirement budgets for board review and approval.
4. Develop a staffing plan with job descriptions for each specific area of employment.

Organizing Work

1. Submit monthly and other special reports as needed, provide general information and recommendations to the board of directors, assist the board in formulating policies, and provide all available facts and information useful in making board policy.
2. Implement staffing plan, including training and development, to achieve cooperative's operational goals.
3. Organize work schedules, staff assignments, product flow, marketing initiatives and other procedures to achieve cooperative's operational goals.
4. Promote cooperative membership through publicity and other means.

Directing Cooperative Business

1. Carry out board policy.
2. Carry out sales/production promotions on all products as planned for in the budget.
3. Assign realistic sales goals, duties, and responsibilities to each employee.
4. Direct and supervise all employees.
5. Train employees and develop employee skills to improve their performance.

6. Hold employee meetings to give pertinent information, get employee advice, and develop group interest and enthusiasm for various programs important to the cooperative.

7. Encourage member and employee self-development.

8. Arrange for receipt of craft products from members and payment to members as described in policy and procedure manual.

9. Provide for adequate maintenance for all equipment and facilities.

10. Enforce facility regulations and develop safe work habits for employees.

Coordination

1. Coordinate all production, marketing, inventory, shipping and other business functions of the cooperative.

2. Coordinate board/manager communications, committee functions and membership communications.

3. Carry on community relations activities.

4. Develop to the utmost a sound working relationship with other cooperatives and the business community whenever feasible.

5. Personally and officially represent the cooperative by participating in community affairs.

6. Develop the image of the cooperative as an economic institution in the job community.

Fiscal Controls

1. Make yearly budget projections for the board of directors and submit data to directors periodically. Submit monthly operating reports, comparing them with the same periods from prior years and with the budget projections.

2. Maintain desirable gross margins, expense ratios, and inventory controls.

3. Monitor accounts receivable and payable on a regular basis and implement procedures to address any deficiencies.

4. Assist the board in completing annual audit. The auditor reports to the board.

5. Make monthly and/or periodic reports to lenders according to agreements.

6. Arrange for the board to review/receive insurance and bonding coverage annually.

Duties and Responsibilities of Directors

In addition to the general duties and powers of directors as set out in the association's bylaws, the following responsibilities are important:

1. Hire a competent manager, determine salary, and outline duties and authority.

2. Adopt policies for guiding the manager and make them a part of the minutes. The policies should include such items as credit to patrons, source and limits of supply inventories, inventory policy, general personnel regulations, etc.

3. Require written monthly financial reports and operating statements for board meetings.

4. Direct the manager to prepare, before the close of each fiscal year, an operating budget for the fiscal year for board approval.

5. Attend regular and special meetings of the board.

6. Understand the terms of all contracts into which the cooperative has entered by authority of the board: leases, loan agreements, orders for supplies, etc.

7. Be sure that any projected expansion program is definitely needed and that adequate financing is provided before giving final approval.

8. Maintain an active interest in the amount and condition of inventories and make inspections as conditions warrant.

9. Employ a qualified auditor to make an independent audit at least once each fiscal year and report directly to the board.

10. The secretary should make the minutes of the board of directors' meetings available to the auditor for actions that might affect the auditor's report.

11. Review at least once each fiscal year the amount of insurance of various kinds carried by the cooperative and determine if coverage is sufficient. Fidelity bonds on employees should also be checked.

12. Continue to give your cooperative close attention even when it seems to be functioning successfully under able management.

13. Develop good patron and public relations as a joint undertaking with management.

14. Plan with the manager to conduct annual meetings and provide the membership with reports based on the annual audit.

15. Be alert to every opportunity to improve knowledge and understanding of cooperative business procedures.

16. Abide by and support all decisions reached by a majority vote of the board.

17. The board should not delegate any of the responsibilities clearly belonging to it.

18. Remember that boards of directors make policy decisions and should not assume responsibilities clearly in the field of management.

19. A credit policy established by directors for members should be observed in every respect by directors themselves when making purchases.

20. Individual board members should not act independently on matters that should be decided by the entire board.

21. A director continuously failing to use the services of the cooperative should be disqualified from board membership.

Rules for Board Members

When elected, directors should:

1. Attend and participate in board meetings.

2. Be attentive.

3. Be prompt.

4. Notify someone they will be absent if unable to attend a meeting.

5. Help the chairperson stay with the agenda.

6. Not ask for or expect special favors from the cooperative.

7. Not use their position for personal gain.

8. Be loyal and support the cooperative.

9. Be fully informed and knowledgeable about the cooperative's operation. The cooperative must be defended from attacks of people who don't understand how cooperatives are organized and how they work.

10. Remember that their job is to direct the cooperative's business. They establish policy, they don't manage. The most common error made by directors is to infringe on management's prerogatives.

11. Set policy and see that management follows it. Such important functions as keeping bylaws and articles of incorporation current,

obtaining long-term financing, setting credit policy, and assuring that the cooperative has an annual audit by a qualified Certified Public Accountant (CPA) are clearly board functions.

12. Keep personal accounts paid up.

13. See that the manager is adequately paid.

14. Not let themselves be nominated for a board position if they are only "lukewarm" about serving.

15. Close board meetings by 11 p.m. "sharp" and not at 2 a.m. "dull." This can be accomplished by starting on time and staying with the agenda.

Separating Board and Management Decisions

Identifying where board decisions leave off and hired management decisions begin continues to be a problem for cooperative board members. Certain criteria or guidelines can be used to determine which decisions should be made by the board and which by management. The list below outlines some of the more important decisions.

1. Ultimate accountability to members is vested in the board of directors, who may subsequently grant certain authority to officers, agents, and employees. The general manager, in turn, is accountable to the board and initiates action within the boundaries of authority granted by the board.

2. The board of directors is concerned primarily with idea decisions, while management is concerned primarily with action decisions.

3. Decisions on overall objectives, policies, and goals are the responsibilities of the board.

4. Decisions related to how and when objectives, goals, and policies are to be attained are the responsibility of management within guidelines established by the board.

5. Decisions involving long-range commitment of resources, which include facilities, finances, or manpower, are the board's responsibility.

6. Decisions involving intermediate and short-term commitment, organization, and control of resources are the responsibility of management.

7. Decisions related to assurance of capable management succession by providing for executive depth and training are the board's responsibility.

8. Decisions specifying the ideal pattern of board performance and for review of and perpetuation of this ideal through indoctrination and training of directors are the board's responsibility.

9. Control over long-range financial commitments, financial structure, objectives, policies, public and member relations, and overall management performance are decisions of the board.

10. Control over operatives, subordinate managers and employees, budgets, procurement, production, marketing plans, and industrial and employee relations programs are decisions for management.

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Agricultural Cooperative Service
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Rural Business-Cooperative Service (RBS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The cooperative segment of RBS (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. RBS also publishes researches and educational materials and issues Rural Cooperatives magazine.

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