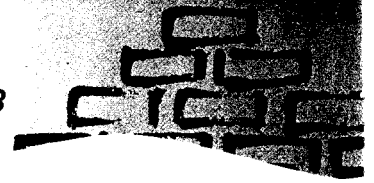




Understanding Cooperatives: The Structure of Cooperatives

Cooperative Information Report-45, Section 3



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Cooperatives exist in nearly every business sector and are organized in a variety of ways. Like other businesses in our economy, they range in size from organizations with only a few member-owners to massive and complex organizations with thousands of member-owners. The way a cooperative is organized determines how it is operated, managed, and controlled by its members, and the types of benefits offered.

Cooperative structure can be classified into five types as follows: geographic, governance, functions, financial, and other arrangements. Each will be defined and discussed in this circular.



Regional Cooperative

Geographic Territory Served
Cooperatives can differ in structure, depending on the size of the area served: local, super local, regional, interregional or national, and international,

Local cooperatives operate in a relatively small geographic area, typically within a radius of 10 to 30 miles. Individuals are the members of these local cooperatives.

Super local cooperatives operate over two or more counties, with several branch facilities.

A *regional* cooperative usually serves an area comprising a number of counties, an entire State, or a number of States.

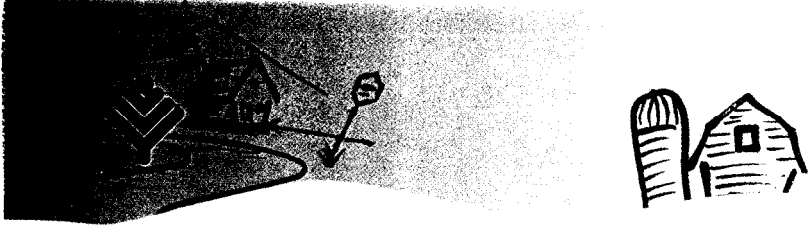
Interregional or national cooperatives are organized, owned, and controlled by regional cooperatives, usually to provide specific services. They may serve a major portion or virtually all of the United States.

International cooperatives operate on an international basis, with headquarters in the United States or other countries.

Governance or Control Structures

Based on membership structure, cooperatives can be classified as centralized, federated, or mixed.

A local cooperative is a *centralized* cooperative — individual producers make up the membership. A centralized regional may serve members in a large geographical area, such as a major portion of all of an entire State or all or parts of several States. A centralized regional has one central office, one board of directors, and a manager (chief executive officer) who supervises the entire operations, which may be conducted through several or many branch offices.

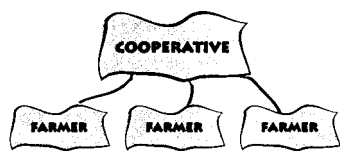


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A **federated** cooperative is a cooperative of cooperatives. The members of a federated cooperative are local cooperatives, operated by a manager hired by and responsible to local boards of directors. Each local association in a federated cooperative is a separate business entity that owns a membership share entitling it to voting rights in the affairs of the regional.

The federated cooperative has its own hired management and staff, and a board of directors elected by and representing the local associations.

A **mixed** cooperative is a combination of the two - their members may be individual producers as well as local cooperatives.

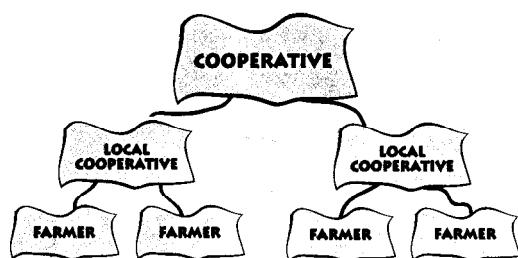


Centralized

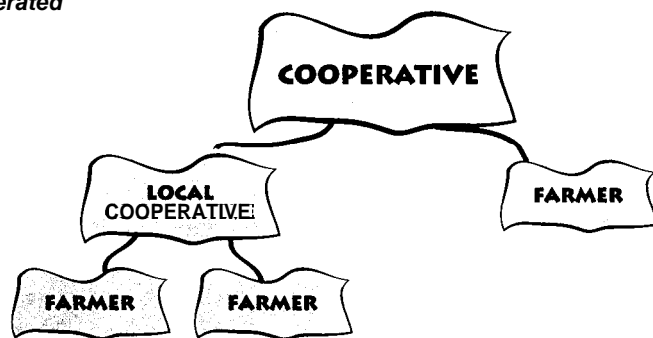
Functions Performed

Cooperatives may perform one or more of these functions for members:

- ◆ marketing products,
- ◆ purchasing supplies, and
- ◆ providing services.



Federated



Mixed

Marketing

The need to meet consumer demands and expand markets for products presents an increasing problem for farmers acting independently. Few farmers produce in quantities needed to deal directly with large wholesalers or retailers. The marketing cooperatives as quantity assemblers provide an increasing variety of off-farm processing and marketing services for about one-fourth of all products that farmers produce.

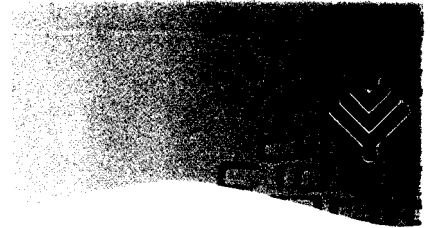
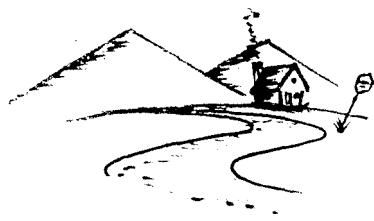
Marketing cooperatives help farmers produce and process quality products to market specification. Cooperative marketing includes the operation of grain elevators, milk plants, wool pools, cotton gins, livestock markets, vegetable markets, and fruit packing plants. Some marketing cooperatives include the coordination of processing, canning, drying, blending, concentrating, extracting, freezing, or consumer packaging of animal and animal products, such as dairy, fish, meat, and poultry and the same for fruit, nut, and vegetable products, and many other products in integrated organizations.

Marketing cooperatives enable farmer-members to extend control of their products as long as the cooperative retains physical or legal title to a commodity handled through processing, distribution, and sale.

Some marketing cooperatives also can be called bargaining associations, which may not handle the actual product but rather act as the selling agent on behalf of the member.

Purchasing

Farmers first turned to cooperatives as economic tools to gain advantage of quality and quantity of farm production supplies such as feed, fuel, fertilizer, and seed. These early efforts often became



businesses having full-time managers and warehouses to handle other production supplies and services such as farm chemicals, animal health products, fencing, building supplies, construction contracting, automotive accessories, etc.

Most cooperatives have affiliated with other cooperatives, often through regional and interregional cooperatives. These efforts reduce farmer costs and strengthen purchasing power through owning large-scale facilities such as petroleum refineries; phosphate, potash, and nitrogen manufacturing plants; feed mills; research farms; and laboratories.

One of a purchasing cooperative's objectives is to reduce production costs for members through quantity purchasing, manufacturing, and distributing, procuring quality products, and providing related services as needed. Distribution to producer members is a major concern at the local level because added services are needed. Another objective is to provide a dependable supply of quality products for members.

Many cooperatives now perform both marketing and purchasing functions, although they started as single-function organizations.

Service

Agricultural service cooperatives provide services related to the production and marketing of farm commodities, or they may provide general services.

Related service cooperatives offer unlimited possibilities and are used in ever-widening circles to solve mutual problems and provide specialized services that affect the location, form, or quality of farm products or supplies for members. Services may be part of the operation, or they may be performed by separate cooperatives. Examples of ser-

vices related to handling farm supplies are recommending and applying fertilizer, lime, or pesticides; animal feed processing; and crop harvesting. General service cooperatives provide a number of specialized services assisting farmers in their business such as credit, electricity, and telephone service.

Financial

Cooperatives are incorporated as either stock or **nonstock** organizations. The type of capital structure is specified in the articles of incorporation.

If the association is a capital *stock* organization, members receive stock certificates as evidence of their ownership interest. More than one type of stock may be issued, but usually no more than two types are necessary. Most stock cooperatives issue one share of common stock per member to show membership. Preferred stock is issued to show additional capital contributions. (Common stock is usually the voting stock; preferred stock is generally nonvoting.)

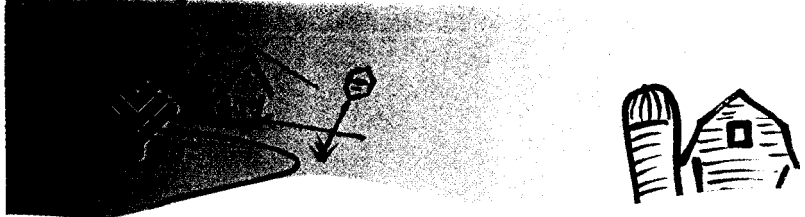
If the association is a **nonstock** organization, it issues some kind of certificate to show capital contributions of members. Two types are usually used — a membership certificate as written proof of the right to vote and capital certificates in a manner similar to the way stock cooperatives use preferred stock.

Other Structural Arrangements

Subsidiary

A corporation organized, owned, and controlled either totally or partially by a parent cooperative. Its purpose is to assume certain duties and functions of the parent cooperative.

The cooperative can be most effective by serving its members needs.



Marketing Agency-in-Common

Organized by two or more marketing cooperatives to market products or provide services for member cooperatives. It does not physically handle products, and it generally does not take title to them. Its sole responsibility is to arrange for the sale of its members' products.

Joint Venture

An association of two or more participants, persons, partnerships, corporations, or cooperatives to carry on a specific economic operation, enterprise, or venture. The identities of these participants remain separate from their ownership or participation in the venture.

Holding Company

A corporate entity with a controlling ownership in one or more operating companies. The degree of ownership can vary widely, as long as the holding company can exercise control through the operating company's board of directors. Usually the holding company generates no revenues from operations; income is limited to returns from investments in the operating companies.

Contract Agent

A county or community cooperative may organize, owning nothing but contracts and paying only the money to hire an agent to handle the goods and keep patronage records. The cooperative then pays patronage refunds on the basis of the agent's records.

Private Dealers

The dealer, as a franchise, keeps records. If the franchiser cooperative makes money and pays patronage refunds, these go to the dealer's customers and the dealer is paid a commission on sales.

Conclusion

Cooperatives are classified as a way to easily identify the nature of the business. The classifications do not mean that one type may necessarily be better or worse than another. It simply means that there are distinguishing differences among the types, and shows the wide variety of cooperatives and the differences in their operations, management, control, etc.

What is important for cooperative members to understand about cooperative structure and their own organization is:

- ◆ what type of cooperative it is;
- ◆ how it is structured; and
- ◆ how the cooperative, whatever classification it might be, can be most effectively used by its members for serving their needs and achieving objectives.

This circular is one in a continuing series that provides training information and presentations for education resource persons who may or may not be familiar with the cooperative form of business. This series provides the basic background material they need, in a form that can be readily adapted, with limited preparation time, to a lecture or other presentation.

For a complete listing of the series, write to RDA—Cooperative Services, U. S. Department of Agriculture, Education and Member Relations Program Area, Ag Box 3253, Washington, DC 20250-3253.

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