
Forming An Arts and Crafts Cooperative



What is a Cooperative?

A cooperative is a business that is collectively owned and controlled by the people who use its services. The benefits (money, discounts or goods) generated by a cooperative are distributed to the owner-users on the basis of the proportion of their contributions to the business. Arts and crafts cooperatives are often formed by artists and craftspersons who are interested in pooling their resources to create better marketing opportunities for their work, consolidate their buying power to receive bulk purchase discounts on supplies, and reduce studio and equipment costs through joint ownership. They can devise their own equitable methods of operation, and by marketing their products jointly, sharing overhead, and cutting out dealers; co-op members can earn more from sales.

Although State laws differ as to the specifics in forming a cooperative, most States require that the cooperative adopt a traditional business form, and many require incorporation to claim cooperative benefits. Cooperatives receive an exemption under federal tax law, by excluding from their gross income any allocation payments made to members.

Cooperatives promote business operation in a socially and ethically responsible manner, staying true to cultural values through an open and collective style of governance. The point of forming a cooperative is to serve the interests of the members, rather than solely to generate a profit.



Cooperative Business Principles

Although cooperatives are often organized through traditional business forms, there are three broad principles that set them apart in their actual operation:

The User-Owner Principle

Member-users own and provide the necessary financing. Cooperative members are often required to share operating costs or perform in lieu services such as spending a specified number of hours a week performing tasks such as cleaning, stocking or selling.

The User-Control Principle

Typically cooperatives are governed on a one-member one-vote basis. Usually, cooperative members elect a board of directors that makes major policy decisions. Some cooperatives choose to operate as a collective where all members function as the board of directors and make decisions through consensus.

The User-Benefit Principle

A cooperative's purpose is to provide and distribute benefits to members based on their use. Assets or money which the cooperative accumulates, after paying its obligations, is returned to its members in proportion to the amount of work performed by each member, or in proportion to sales of each members' work. Cooperative members must also share any loss burden. Individual members must pay tax on their income when preparing their individual tax returns. Members are allowed to let the cooperative to keep their allocations as a way to help the cooperative grow.

Steps to Form a Cooperative

If you are interested in forming a cooperative, the first step is to learn all you can about cooperatives. This includes the legal, economic, and financial aspects of cooperative business. Getting the help of a cooperative development specialist, an attorney, and an accountant will increase your chances for success.

Here are 10 steps that can be helpful in organizing a cooperative:

- 1) Hold an exploratory meeting with others who have a similar interest and determine whether you have common needs that could be addressed as a group.
- 2) Select a steering committee to guide the group through the formation process;
- 3) Conduct a survey of potential members;
- 4) Analyze markets for products, supplies and services;
- 5) Prepare a business plan;
- 6) Incorporate the business;
- 7) Adopt bylaws and select a board of directors;
- 8) Find investment funds needed to carry out the business plan;
- 9) Hire management, employees; acquire facilities, supplies and equipment as needed;
- 10) Begin operations

Where to Get Help

The United States Department of Agriculture's Rural Business and Cooperative Development Service assists Native Americans with formation of arts and crafts cooperatives. They have a staff of professionals who can help you to organize a cooperative and provide technical assistance to existing cooperatives. For more information, you may call the Director, Mr. John Wells, at 202-720-3350, or email him at john.wells@usda.gov.



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