



**Co-operative in the 21st Century**

# **The Co-operative Start Up Manual**

**The essential field guide for starting co-operatives in Victoria**

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The essential field guide for starting Co-operatives in Victoria.

For Communities and Professional Advisers

June 2001

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## **The Co-operative Start-up Manual**

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### Preface

The Co-operative Start Up Manual is a co-operatives guide for the 21st Century. It has been prepared for people and communities seeking information forming a co-operative.

While this legal form of business structure is well established in Victoria, and in particular has been very popular in the rural agricultural sector for over a 100 years, practical information on all facets of co-operatives is currently not easy to obtain.

Interest in co-operatives seems to wax and wane in Australia. For instance in the early 1980's the co-operative movement in Australia received strong endorsement from many sectors of the community. State Government Departments were created for better support of the movement, academics in various disciplines promoted the subject, specialist 'idealistic' small business co-ops were started; numerous conferences and publications came about as a result of the movements popularity. But now 15 to 20 years later there is little public focus on the movement or on its wonderful potential in various situations.

Rural disruption and rapid change have provoked people to think, search and look for alternatives that will bring stability to their business, personal and local community lifestyles. The formation of co-operatives can, and does, offer an excellent answer for countering ongoing business and community degradation in rural areas. This document explores those issues and cites a number of examples e.g. Nullawil- Vic. and Yeoval - NSW, where the communities have created local alternatives, via forming co-operatives, that have saved their local way of life and injected new hope and energies into their districts.

It should be clearly understood that co-operatives do not provide the answers to every problem. Co-operatives for co-operatives sake, or idealistic reasons, do not solve a thing. Any problem that is to be solved should have future financial potential and meet the need via people working together for a common purpose i.e. in the case of a good local business opportunity the product to be produced and sold must have a market or a good potential market and the product must bring good returns on investment for the people forming the co-op. A co-operative can bring wonderful dynamics to the local community way of life if it has good management and good money earning capacity. Money earning capacity is the rule of all business and is no different in the case of co-operatives.

With this publication, professionals, individuals and communities now have a tool that will help them determine whether the co-operative way is their way or whether other ways are more suited.

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### Introduction

The Co-op Start Up Manual has been written for those seeking a proven structure beneficial to meeting business or local community needs; needs that may not be met by other legal business structures and approaches.

The Manual addresses the issues of establishing a Co-operative in Three Parts. Part One is based on the experience of others and is built around practical questions and answers commonly asked and addressed:

before, during and after the establishment of a co-operative. Parts Two and Three play an important role through providing practical Case Studies based on the experiences of successful co-ops and through providing important information helpful to the establishment process.

Besides being a practical manual about establishing co-operatives this is a guide to co-operatives and their potential role in revitalising rural communities through local ownership. It describes how the co-operative approach is well suited to the successful long term community development process and in the Case Studies highlights the experiences of communities that have successfully achieved that. These examples emphasise the fact that successful local development must be locally driven and that without local community ownership and control, no government program, however well meaning, will succeed in the long-term.

### Key Factors to success in business and local community revitalisation through the Co-operative approach:

- A positive attitude - belief in the capacity of a community to act on its own behalf and make a difference.
- An emphasis on action - a willingness in the community to go beyond talk, and take action for itself, by itself.
- A local focus - realisation that action for a community must be locally generated and focused in the community.
- A realistic focus - recognizing the Strengths, Weaknesses, Opportunities and Threats within a community.
- A commitment to small - to gradualism and that small success can snowball into more small successes, rather than pursuing problematic big successes.
- A commitment to plan - an understanding that it is necessary to plan for change.
- Using experts as resources for the community, rather than allowing them to define opportunities and outcomes for the community.

### The issues of establishing a co-operative - in Three Parts.

- Well-planned business development is often the throttle for vibrant community development. As user-owned organisations, co-operatives have been used as a model for individual self-help and empowerment; one that strengthens bonds leading to greater community awareness and involvement.
- Co-operatives not only provide access to markets not otherwise reached, but also provide member-owners with an opportunity to improve incomes and services.
- The success of these voluntarily owned and controlled businesses helps build needed infrastructure that increases community vitality and ultimately benefits all members in the community.
- Because they (co-operatives) belong to the people who use them they are firmly grounded in the region they serve. They are not prone to relocation or buy-out. At a time when increased concentration of economic activity, decreasing farm numbers, and declining rural population jeopardise their viability and autonomy, this is also a valuable lesson for rural communities.

# Part One

**Part One** - is a practical introduction to co-operatives, based around the most often asked questions; these are grouped as follows:

**Co-operatives in a nutshell** the important points - Page 1 to 2

**Questions and answers** - the important things to know about co-operatives.

**Background, an historical perspective** - Pages 3 to 5

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**After you start** - Pages 15 to 19



### **Co-operatives the important points:**

**In one sense , co-operation is probably as old as civilisation.** Early people had to learn to work together to meet their common needs, or perish **Page 3**

**Co-operatives have a long history in the development of Australian agriculture** This is especially true of agricultural marketing co-operatives **Page 4**

**Co-operatives have succeeded because** they have directly met the economic needs of individual producers. At the same time, these co-operatives have met the demands of consumer markets **Page 5**

**A co-operative is a business owned and controlled by the people** who use its services, and who, by working together, can reach an objective unattainable by acting alone. It is a form of business enterprise, organised on a voluntary basis, democratically controlled and member-owned **Page 6**

**The decision to form a co-operative** must be based on a group of individuals and/or organisations who have a common need or problem **Page 6**

**The underlying function of a co-operative is to increase members' income** and/or in other ways enhance their way of living. **Page 7**

**Where capital comes from acts as a critical influence** on the decision to choose the co-operative model. Co-operative members must be committed to meeting the capital formation **Page 8**

**Several basic unwritten rules for successful formation** and subsequent operation of a co-operative apply to more than one step of the process **Page 9**

**The members of a co-operative have limited liability.** A member of a co-operative with share capital is only liable to the co-operative for the amount, if any, unpaid on their shares held **Page 10**

**The starting point is the mutual need**, and whether a business could be formed to meet this need, and then, whether the co-operative model is the most appropriate **Page 11**

**Before spending a lot of time and money setting up a co-operative**, be sure you can efficiently produce a product or deliver a service for a price people are willing to pay **Page 12**

**Assuming the feasibility study results are favourable**, the steering committee should carry out or commission a business plan **Page 13**

**The start-up of each co-operative is unique** so the steps outlined here should not be used as a rigid blueprint, but rather as a basic introduction **Page 14**

**Some common reasons for failure are:** Inadequate feasibility studies and/or business planning. Failure to use experienced advisers and consultants **Page 15**

**Co-operatives face the same challenges as any other business.** In addition, however, a co-operative is presented with special challenges because of its unique character **Page 16**

**Co-operatives are not designed to attract risk capital.** They are designed to reward use. No one is directly rewarded in proportion to their equity investment **Page 17**

**The Directors must employ competent management** and operate within strategic plans developed jointly. **Page 17**

**One of the most important membership jobs** is to elect a competent board of directors **Page 18**

**The overriding value of the co-operative to its owners** is in the services it provides **Page 19**

In one sense, co-operation is probably as old as civilisation. Early people had to learn to work together to meet their common needs, or perish.

### 1 Can you tell me about existing co-operatives?

This manual contains a number of case-studies of existing co-operatives. The co-operative model for organising a business is recognised and practised world-wide. Australia has thousands of co-operatives which are active in most important industries, including of course credit union co-operatives. Co-operatives exist in the following industries: Agriculture, Architecture, Book Sales, Child Care, Dairying, Education, Energy, Forestry, Funeral, Grain, Hardware, Health, Housing, Newspaper, Radio Broadcasting, Rice, Taxis, Telecommunications.

#### Overseas co-operatives.

In the USA for example, 47,000 co-operatives providing products or services to over 40% of the population, include:

- **Credit Unions:** Supplying financial services for over 70 million consumers.
- **Utility Co-operatives:** Providing electricity, telephone and telecommunication services to more than 26 million people, predominantly in rural areas.
- **Housing Co-operatives:** Co-operative housing is quality, affordable housing for over 1 million people.
- **Food Co-operatives:** Over 1 million Americans stretch their food dollars through membership in nearly 5000 food co-operatives.
- **Health Care Co-operatives:** Provide comprehensive health care for more than 1 million Americans.

In Japan, consumer co-operatives are the largest food retailers in that country. Their total membership of over 20 million people, represents more than 25% of Japanese households.

### 2 What is the history of co-operatives in Australia and other countries?

In one sense, co-operation is probably as old as civilisation. Early people had to learn to work together to meet their common needs, or perish.

Some writers trace the origin of co-operatives as we know them today, from the Rochdale Equitable Pioneers Society, an urban, consumer co-operative organised in England in 1844. The Rochdale Pioneers opened a shop in Toad Lane providing a small range of goods. Within six years there were about 500 retail co-operatives. The Grange founded in 1867 quickly became the major thrust behind agricultural and rural co-operatives in the USA.

- Co-operatives were first established in Australia in the 1830's and 1840's with the formation of Friendly Societies.
- Agricultural co-operatives were first formed in Victoria in the 1880's.

Co-operatives have a long history in the development of Australian agriculture.

- Butter factories were established in Victoria from 1888. Between 1888 and 1896, for instance, co-operative butter factories were established at Warrnambool, Poowong, Bena, Loch, Yinnar, Korumburra, Dumbalk, Leongatha and Woodleigh. Most of the factories were co-operatives - 46 in 1905 with 19 private factories.
- In 1949 Murray Goulburn was formed, as the Murray Valley Co-operative Dairy Products and Trading Company Ltd at Cobram. It assumed the name Murray Goulburn in 1961.
- Cool stores were established in Victoria from 1891 to enable orchardists to market their fruit for longer periods and export to overseas markets. In 1891 the Victorian Government established a cool store and the first co-operative cool store was established in 1911 - the West Doncaster Co-operative Cool Store. In 1915 five government cool stores were handed over to growers to operate as co-operative cool stores.
- The Co-operative Insurance Company of Australia Limited was launched in Victoria as the Co-operative Insurance Company of Victoria Ltd and subsequently branches were opened in N.S.W. and SA.
- The YCW Co-operative Society Ltd was formed in 1947 - a retail trading co-operative selling school clothing, furniture, soft furnishings, floor coverings and household appliances.
- The first co-operative housing society was formed in 1945.
- The Victorian Association of Catholic Credit Co-operatives was formed in 1957 by the YCW Central Credit Co-operative, St. Gabriel's (Reservoir) and St. Peter's (East Bentleigh). In 1966 the Association was renamed the Victorian Credit Co-operative Association.
- The Victorian Artificial Breeders' Co-operative was formed in 1958 to serve artificial insemination centres throughout Victoria - at Colac, Central Gippsland, Bunyip, Yarram, Fish Creek, Warragul and the Werribee District.
- The first national conference of co-operatives was held in Melbourne in 1918 - essentially a conference of agricultural co-operatives. As a result of this conference, the Australian Producers Wholesale Co-operative Federation was formed and headquartered in Victoria. It was also in 1918 that PIVOT Ltd was formed and subsequently registered on 4 June 1919 as the Phosphate Co-operative Company of Australia Limited.

### **Where have Co-operatives Succeeded?**

Co-operatives have a long history in the development of Australian agriculture. This is especially true of agricultural marketing co-operatives. Co-operatives such as Murray Goulburn, Bonlac, Ardmona, Pivot, Genetics Australia and others are producer-owned businesses which rank among some of the biggest agribusinesses in this country.

# The Co-op Start-Up Manual

## Questions & Answers Background

Co-operatives have succeeded in these businesses because they have directly met the economic needs of individual producers. At the same time, these co-operatives have met the demands of consumer or industrial markets as well as or better than competing businesses.

Traditionally, these cooperatives have been used by relatively small farmers, to achieve the marketing power they need to receive fair treatment from the buyers of their produce. Alternatively they have been used by those same farmers to join together to ensure supply of inputs, such as fertilizer, at reasonable prices.

In addition to agriculture, rural Victorians have been well served by co-operatives operating in fields such as fishing, food processing, retailing, hotels, newspapers, public broadcasting, community development and telecommunications.

Co-operatives have succeeded in these businesses because they have directly met the economic needs of individual producers. At the same time, these co-operatives have met the demands of consumer or industrial markets

The decision to form a co-operative must be based on a group of individuals and/or organisations who have a common need or problem, and a commitment to work together on a mutual basis to meet their need or address their problem.

### **1 What is a co-operative?**

A co-operative is a business owned and controlled by the people who use its services, and who, by working together, can reach an objective unattainable by acting alone.

It is a form of business enterprise, organised on a voluntary basis, democratically controlled and member-owned, to variously meet the economic, social, and cultural needs of its members

### **2 What are the distinctive features of a co-operative?**

The defining characteristic of a co-operative is that it is a business owned and controlled by the people who use its services.

In certain respects co-operatives resemble other businesses. They have similar physical facilities, perform similar functions, and must follow sound business practices. They are incorporated under the Victorian Co-operatives Act 1996 (some co-operatives are incorporated under Corporations Law because they were formed before Victoria's first co-operative legislation in 1953). They operate under a set of Rules adopted at a Formation meeting and approved by the Registrar of Co-operatives (see Appendix E). Members elect a board of directors, which sets policy and oversees the co-operatives management.

In other respects co-operatives are distinctly different from other businesses. These differences are found in the co-operative's purpose, its ownership and control, and how its benefits are distributed.

### **3 How do co-operatives differ from other business structures?**

This is sometimes described as The Co-operative Difference. The key co-operative differences lie in its philosophy, purpose and structure.

#### **The philosophical difference (the user-owner principle)**

A co-operative is owned by the users of the co-operative who benefit from their membership. This difference is expressed in the statement of co-operative principles adopted by the International Co-operative Alliance.(see Appendix B). The philosophy and practice of member ownership and control is fundamental, and those considering the co-operative option need to be convinced about the desirability and practicality of the co-operative way.

#### **The purpose difference (the user-benefit principle)**

The decision to form a co-operative must be based on a group of individuals and/or organisations who have a common need or problem, and a commitment to work together on a mutual basis to meet their need or address their problem. Co-operatives are service oriented and their only purpose is to meet needs and provide and distribute benefits to members based on their use.

The underlying function of a co-operative is to increase members' income and/or in other ways enhance their way of living. Co-operatives enable small consumers and/or producers to increase their bargaining power in the market.

### **The structural difference (the user-control principle)**

The member-users control the business. A co-operative is democratic i.e. there is one vote per member, irrespective of their degree of use of, or the number of shares they hold in the co-operative. No one shareholder is permitted to hold more than 20% of the total issued share capital of a co-operative.

Democracy may on occasions mean that important decisions need to be discussed with members and this requires time and resources, and may delay decisions. Generally however, the overseeing of management and direction setting is effected by a Board of Directors elected by the members. A co-operative's democracy depends on the active involvement of its members. (Refer 3 on Page 16)

### **4 What can a co-operative do for me/us? How could a co-operative help me/us?**

The underlying function of a co-operative is to increase members' income and/or in other ways enhance their way of living. Co-operatives enable small consumers and/or producers to increase their bargaining power in the market. Farmers use co-operatives to market and process produce and livestock, and to purchase supplies and services. (see Case Studies No's 1,3,4,5,6)

Rural residents are often able to reduce costs, or obtain services that might otherwise be unavailable, and achieve greater returns for their products, by working together for their mutual benefit in co-operatives. For example the people of Yeoval (pop.550) in central N.S.W. maintain their hospital and all the health services it provides, through a co-operative. The Yeoval Community Hospital Co-operative Ltd. is an inspirational example of what can be achieved by people working together for their mutual benefit-meeting their own health needs.(see Case Study No.9).

### **5 What sort of business could a co-operative be involved in?**

Virtually any sort of business is a potential co-operative organisation. Co-operatives are categorised or classified in many different ways, but basically there are five types.

- Consumer or Purchasing - buying and then selling goods to members at competitive rates. (see Case Studies 6 and 7).
- Marketing - marketing and distributing members produce and products. (see Case Studies 1,3,4 and 5).
- Service - providing services to members, such as health care, telecommunications, electricity, housing and child-care. (see Case Studies 2,8 and 9).
- Financial - providing a range of banking and insurance services to their members. Credit Unions are examples in this country.
- Worker - any type of business owned and controlled by its employees. Members are the workers and the owners at the same time.

### **6 Is a co-operative better than other business structures?**

This depends on the reasons behind the business formation. The answer is that it may be a better structure in some circumstances but not in others. Co-operatives have benefits and limitations. Co-operatives are influenced by the same economic forces, legislative requirements and laws that influence other business models. People problems can influence all businesses and co-operatives are no different in this respect. Structural tensions can develop in a co-operative if there are large users who over a period of time form a view that control of the co-operative should be in direct proportion to shareholding or usage of the co-operative. Co-operatives can have the added dilemma of choosing between building the financial strength of the co-operative or increasing its returns to the members. (Refer Case Study 1)

Where capital comes from acts as a critical influence on the decision to choose the co-operative model.

Members of a co-operative must be committed to meeting the capital formation and maintenance needs.

If the members are unable or unwilling to provide the necessary capitalisation, it may be necessary to consider a different structure e.g. a company.

### **7 When Do Co-operatives Work Best?**

- When there is a clear common objective
- When user-ownership enables members to create value that an investor-owned business can't or won't create
- When there is a viable business opportunity
- When the business is well-managed
- When there are economies of scale
- When success is important to members
- When the expertise of appropriate advisers is used, as and when necessary
- When members are kept informed and involved
- When there is an ongoing co-operative education program

### **8 Why should I/we choose a co-operative structure?**

You should only consider choosing the co-operative structure if you can answer Yes to all these questions:

- Have you identified an economic or other form of need you believe a co-operative can fulfill?
- Will the organisation be service-driven for its member owners?  
Are the intending members prepared to provide the necessary capital for its formation and maintenance?
- Are you committed to the principle of one vote per member, with large and small users having one vote each? In other words, democratic member control.
- Can the intending members fulfill their obligation to use the co-operative's services?
- Will membership be open and voluntary?

Where capital comes from acts as a critical influence on the decision to choose the co-operative model.

Members of a co-operative must be committed to meeting the capital formation and maintenance needs.

### 9 What are the ingredients for a successful co-operative?

Several basic unwritten rules for successful formation and subsequent operation of a co-operative apply to more than one step of the process and to continuing operations. Some of these unwritten rules are unique to the co-operative form of business and include:

- Effective use of appropriate advisers and committees.
- Keeping members informed and involved through continuing member education. (See Case Studies 4,5,7,8)
- Maintaining proper board of directors/management relations.
- Following sound business practices.
- Conducting business like meetings.
- Forging links with other co-operatives and co-operative regional organisations.
- Continually developing co-operative management philosophy and practice.

Several basic unwritten rules for successful formation and subsequent operation of a co-operative apply to more than one step of the process and to continuing operations.

### 1 Who Can Help Me?

- Co-operative Federation of Victoria Ltd.
- Registrar of Co-operatives

(see Appendix E for full list, addresses and phone numbers)

### 2 Who Can Be A Member of a Co-Operative?

#### Anyone:

- 1 Who can benefit from the services of the co-operative,
- 2 Who can contribute to the success of the business,
- 3 Who is willing to accept the responsibilities of membership
- 4 Who has been approved by the Board of Directors.

**Note** A member under the age of 18 years cannot hold any office in a Co-op nor are they entitled to vote.

### 3 How Does A Member Benefit from a Co-Operative?

#### The benefits of membership are:

- 1 Savings on products purchased, or increased price received for product sold by the co-operative, paid initially, or through distribution or profits;
- 2 Competitive impact on prices, services, and quality;
- 3 Control of the business; and
- 4 Access to a dependable supply of, or market for, products and services not otherwise provided.

### 4 What are a Members' Responsibilities?

In return for the benefits, members assume responsibilities that often determine the ability of the co-operative to continue to serve members' objectives, including;

- 1 Patronize and support the co-operative;
- 2 Invest equity in the co-operative;
- 3 Be involved in the affairs of the co-operative; and
- 4 Serve on the board, committees and management, so the co-operative can more effectively serve members and customers.

### 5 How Much Money Can I Lose If the Co-operative Fails?

The members of a co-operative have limited liability. A member of a co-operative with share capital is only liable to the co-operative for the amount, if any, unpaid on their shares held. They, and members of a co-operative without share capital, may also be liable for any charges payable by the member to the co-operative, in accordance with the rules of the co-operative.

The members of a co-operative have limited liability.

A member of a co-operative with share capital is only liable to the co-operative for the amount, if any, unpaid on their shares held.

### 6 Where Do I Start? Eight Basic Steps For Starting A Co-Operative, In An Ideal World:

**Step 1 Developing the business and co-operative idea**

**Step 2 The Public Meeting(s)**

**Step 3 Feasibility Study including Member and Market Surveys.**

**Step 4 Co-Operative Education**

**Step 5 The Rules**

**Step 6 The Business Plan**

**Step 7 The Formation Meeting**

**Step 8 Registering the Co-Operative**

#### **Step 1: Developing the Business and Co-operative Idea**

Decide whether the business and co-operative option is viable by collecting information, clarifying the need for a co-operative, and pulling together a core group of individuals with like needs, potentially committed to the co-operative ideal. (Refer Case Studies) The starting point is the mutual need, and whether a business could be formed to meet this need, and then, whether the co-operative model is the most appropriate. The starting point is definitely not a co-operative looking for a business idea.

#### **Step 2: The Public Meeting(s)**

Organise a public meeting to establish whether there is sufficient public support for the proposed co-operative. Are there sufficient individuals and/or organisations who will join and support the co-operative as active members - beyond the membership of the core group?. It is essential that three issues are addressed at this meeting:

- The business idea
- The co-operative idea
- The importance of active membership to the co-operative idea. (See Appendix F)

This meeting should also establish whether the co-operative will be registered as a Trading or Non-trading co-operative. (refer Step 5 Rules)

There should be plenty of time for discussion so that everyone who wants to express a view or ask questions can do so. These are the people who will form the basis of the co-operative- the members. A decision has to be made on whether or not to proceed. If the decision is Yes, then a Steering Committee should be appointed. The meeting will have to decide on the size of the steering committee, its terms of reference, and when it is to report to another public meeting. Steps 3, 4 and 5 are tasks for the steering committee.

The starting point is the mutual need, and whether a business could be formed to meet this need, and then, whether the co-operative model is the most appropriate. The starting point is definitely not a co-operative looking for a business idea.

### Step 3: Feasibility Study including Member and Market Surveys

Two important tasks of the steering committee are to survey potential members and the market in which the co-operative proposes to operate. A co-operative is formed to serve its members by providing services that are used by the members. It is critical to establish who will join the co-operative and actively use its services.

The market issues revolve around questions such as:

Can the co-op get better prices, better quality, or better services than potential members currently get through other means?

How will the co-operative be, and remain competitive?

Before spending a lot of time and money setting up a co-operative, be sure you can efficiently produce a product or deliver a service for a price people are willing to pay.

Depending on the size and complexity of the proposed co-operative venture, a feasibility study need not be elaborate and costly, but it must address the risks, benefits, strengths and weaknesses and answer the following questions:

**Concept:** What product or service will you market?

**Market:** Who is going to buy your product/service? Where? Why? And in what quantity? Who is your competition?

**Cost/Price:** What will it cost to produce? What are people willing to pay? What is the competition charging?

**Production:** How will your product be produced? How will the work be organized?

**Financing:** How much will it cost to start-up? Where will the money come from member investment, banks or credit unions? How much will the co-op earn and when? While the feasibility study is not a substitute for a business plan, it must at least provide the basis for one.

### Step 4: Co-operative Education

It is important for the proposed members of the co-operative to study the co-operative option before the formation of any co-operative. This would entail, engaging prospective members in gaining information and an understanding of co-operatives, developing knowledge and an understanding of the basis of co-operation.

They should also be assisted to continually develop co-operative skills and behaviour. The Co-operative Federation of Victoria Ltd can arrange any required co-operative education program.

Before spending a lot of time and money setting up a co-operative, be sure you can efficiently produce a product or deliver a service for a price people are willing to pay.

Assuming the feasibility study results are favourable, the steering committee should carry out or commission a business plan. It is often a more in-depth version of the feasibility study.

### Step 5: Rules

The rules of the co-operative describe how the co-operative will organise itself and they are basically a contract between the members and the co-operative.

Copies of model rules are available from the Registrar of Co-operatives (Refer Appendix E) There are four types of model rules available:

- 1 Trading co-operative
- 2 Non-trading co-operative with shares
- 3 Non-trading co-operative not issuing shares
- 4 Non-trading, government guarantee co-operative

For many co-operatives the model rules will meet their purposes with just a few necessary alterations and additions based on the nature of the proposed co-operative e.g. name, share allocation, number of directors, primary activities of the co-operative and active membership provisions. (see Appendix F)

Check lists to assist this process are available from the Co-operative Federation of Victoria Ltd.(see Appendix E)

A crucial decision is whether or not the co-operative will be established as a Trading or Non-Trading co-operative.

These terms are slightly confusing, the distinction being actually whether the members can receive a share of any surplus (profits), and/or any return on capital. A trading co-operative must have share capital and members may receive a share of any surplus, and/or a return on capital. A non-trading co-operative may or may not have share capital and members do not receive a share of any surplus and only get back, at most, the original value of their shares in the event of the co-operative winding-up.

Once the rules have been decided upon by the steering committee they must be submitted to the Registrar of Co-operatives (See Appendix E) for approval at least 28 days before the Formation meeting(Step 8). If the proposed co-operative is going to be a Trading co-operative, a Disclosure Statement must also be prepared and submitted for approval, at the same time as the rules.It will be advisable to check with the Registry for their current guidelines on Disclosure Statements. (See Appendix F) The Registrar will approve the name and rules and any disclosure statement of the proposed co-operative, and provide an application to register form, and an approved copy of the rules to present at the Formation meeting.

### Step 6: The Business Plan

Assuming the feasibility study results are favourable, the steering committee should carry out or commission a business plan. It is often a more in-depth version of the feasibility study. The complexity and length of the business plan will depend on the proposed co-operative and its business activities. (For a suggested Business Plan outline see Appendix A)

### Step 7: The Formation Meeting

Once the proposed co-operative's rules (and disclosure statement if necessary) have been approved by the Registrar (see Step 5), the Formation meeting can be held. The procedures are as follows:

- At least five prospective members must be present at the meeting, i.e. people who are eligible to join the co-operative as active members.

Make sure there are plenty of copies of the rules for everyone who attends the meeting.

- A chairperson should be elected to run the meeting and a secretary appointed to keep a written record of the meeting. The rules and any disclosure statement should be discussed and it is important to ensure that they are clearly understood.
- If there are no changes to the rules, then someone should move a resolution that the co-operative be formed, and the approved rules adopted.
- The rules can be changed at this meeting, but these changes again have to be approved by the Registrar. This will require holding another formation meeting, so it is a good idea to ensure adequate consultation and discussion on the proposed rules takes place before the formation meeting. It may be necessary to hold a pre-formation meeting.
- A board of directors should then be elected. These directors will serve until the co-operatives first annual general meeting.
- Members at the formation meeting must complete an application for membership.

### Step 8: Registration

The chair and secretary of the formation meeting should sign two copies of the rules, and if a trading co-operative is being formed, the disclosure statement. The Application to Register form should also be completed. Within two months of the formation meeting the following should be sent to the Registrar of Co-operatives (See Appendix E):

- The completed Application to Register form
- Two copies of the Rules signed by the chairperson and secretary of the formation meeting. (See Appendix F)
- A copy of any Disclosure statement, (see Appendix F) signed as above.
- A list of the foundation directors' full names, home addresses, occupations, and dates and places of birth.
- The application fee - check with the Registrar of Co-operatives for the current fee.(see Appendix E)

### Conclusion:

These steps in forming a co-operative listed above are intended to provide a general overview to the co-op organising process. The start-up of each co-operative is unique so the steps outlined here should not be used as a rigid blueprint, but rather as a basic introduction.

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### 1 Why Do Co-operatives Fail?

Some common reasons for failure are:

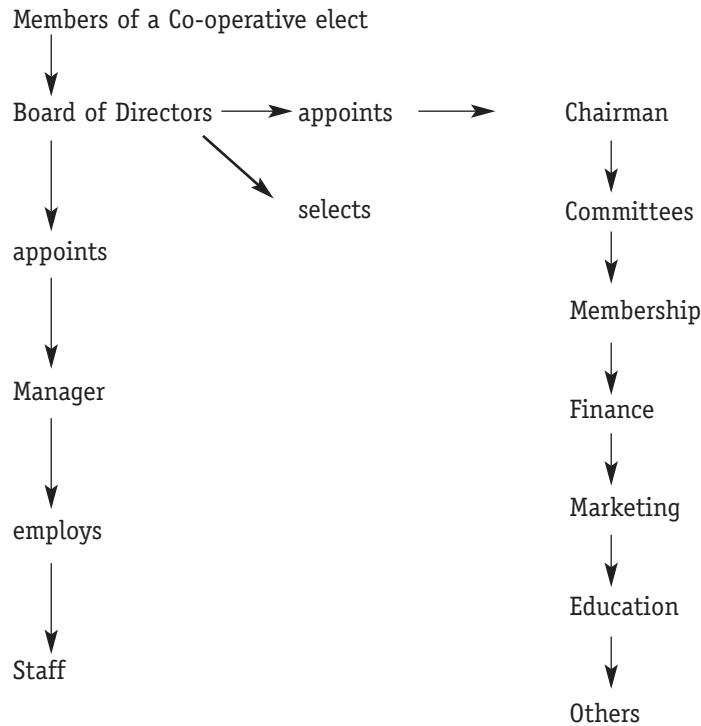
- 1 Inadequate feasibility studies and/or business planning.
- 2 Failure to use experienced advisers and consultants.
- 3 Failure to control advisers and consultants. (See Case Study 5)
- 4 Lack of competent management skills.
- 5 Having unclear or conflicting mission statements and goals.
- 6 Lack of member communication & education programs. (See Case Study 4)
- 7 Member inactivity through:
  - Not providing the financial resources necessary for the growth and survival of the co-operative.
  - Not attending meetings.
  - Not voting on significant issues.
  - Not reading the co-operatives member communications processes e.g. newsletter.
  - Not trading with the co-operative.
  - Not participating in member education programs.

### 2 Keeping it Co-operative, Check List

- Is there an understanding and acceptance of the co-operative difference and advantage?
- Is that understanding reflected in a governance practice that reinforces co-operation?
- Is that understanding reflected in a management practice that reinforces co-operation?
- Does management integrate co-operative values within its management practice?
- Is there an ongoing member education program?
- Do members see the connection between their individual interest and the group (co-operative) interest?
- Is there an ongoing member participation program?
- Are meetings truly open to members?
- Are the members adequately notified in advance of time, date, place and purpose of meetings?
- Are members at meetings encouraged to raise questions and make comments?
- Do members speak freely on issues?
- Are members invited to attend board meetings, where appropriate?
- Is there a policy explaining board responsibility and authority?
- Is the scope and nature of membership control clear?
- Is there a written manual for board members?
- Do board members speak freely on issues?

Some common reasons for failure are:  
Inadequate feasibility studies and/or business planning. Failure to use experienced advisers and consultants.  
Failure to control advisers and consultants.  
Lack of competent management skills.  
Having unclear or conflicting mission statements and goals.  
Lack of member communication & education programs.

### 3 Structure And Operations:



Co-operatives face the same challenges as any other business. In addition, however, a co-operative is presented with special challenges because of its unique character as a user-owned, user-controlled, user-benefit business.

The organisational structure of a co-operative recognises the superior position of the members in the ownership and control of the business.

By exercising their democratic rights, at membership meetings, committee meetings, and direct contact with management and the Board, members can have a positive influence on the way the co-operative is operated and relates to members. All major objectives and decisions should be established or approved by the general membership. In order to be efficient, the members elect a board of directors who act as trustees and "stand in" for the members in the management of the business.

### 4 Do Co-operatives Face Special Challenges? (Lessons from History)

Co-operatives face the same challenges as any other business. In addition, however, a co-operative is presented with special challenges because of its unique character as a user-owned, user-controlled, user-benefit business.

Co-operatives are not designed to attract risk capital. They are designed to reward use. No one is directly rewarded in proportion to their equity investment. For this reason, members must understand that they own the co-operative, that equity must be provided, and that in the long-term, only members will provide equity.

### Challenges in Marketing:

Members of co-operatives have been known to pressure their own co-operative to overpay them for produce supplied, or to sell produce outside of their co-operative. This situation, which inevitably leads to an undermining of the co-operative, can and should be avoided by requiring marketing agreements which project the volume to be delivered to the co-operative by each member.

The realities of the market-place also means the management of a co-operative is bound to enforce and compensate for quality differentials in product supplied by its member-owners.

### Challenges in Finance:

Co-operatives are not designed to attract risk capital. They are designed to reward use. No one is directly rewarded in proportion to their equity investment. For this reason, members must understand that they own the co-operative, that equity must be provided, and that in the long-term, only members will provide equity. Education in co-operative finance is important to help members understand their role in keeping the co-operative adequately capitalised. (See Case Studies 1,3,4)

### Challenges in Decision - Making:

Member-owners control their co-operative through the board of directors, elected by the members. It is possible for members to significantly slow decision-making in the co-operative and make it unresponsive to market opportunities if they are not prepared to delegate authority. To address this challenge, members are best advised to learn and take seriously the role and responsibilities of their Board of Directors and of management. They must employ competent management and allow it to operate within strategic plans developed jointly with the Board.

### 5 How do Members Make Co-operatives Work? By:

1. Electing directors to oversee management and give direction to the co-operative.
2. Attending meetings and other co-operative activities.
3. Voting on significant actions affecting their co-operative, e.g. asset changes.
4. Formulating and approving overall objectives and policies.
5. Evaluating the performance of the co-operative through general meetings.
6. Approving and amending the co-operative's rules.
7. Providing capital to the co-operative.
8. Communicating complaints, suggestions and needs to management and board.
9. Encouraging the support and involvement of other members.
10. Encouraging and supporting the development of other co-operatives.

Directors must employ competent management and allow it to operate within strategic plans developed jointly with the Board.

One of the most important jobs of the membership is to elect a competent board of directors.

### **6 What Do Co-operative Directors Do? They:**

1. Ensure they understand their duties and legal responsibilities under the Co-operatives Act 1996
2. Listen to, inform and advise members and management.
3. Place the co-operative first in all their dealings and decision making, disclosing any conflict of interest.
4. Make time for meetings, keep themselves informed and act with due diligence.
5. Participate in decision making by asking discerning questions.
6. Understand the division of responsibilities between the board and management.
7. Help originate and then approve policies.
8. Employ management, direct management and appraise management performance.
9. Annually self-evaluate the performance of themselves and the board.

### **7 How Do I Know My Interests as a Member are being met?**

Members can be assured that their interests in the co-operative are being met when:

1. members are involved in determining their needs and wants;
2. members vote effectively;
3. the co-operative effectively responds to the needs and wants of the members;
4. members are informed through meetings, newsletters, online means;
5. members have an opportunity to effectively participate in the affairs of the co-operative; and
6. members feel that their participation is meaningful.

One of the most important jobs of the membership is to elect a competent board of directors. A co-operative's rules may allow the board to have one or two independent directors; that is, non member directors with particular expertise although there must be at least 3 member directors appointed for each independent director (See Case Studies 1,3,6)

### **8 Why Should a Co-operative Conduct Member Education?**

Keeping owners educated on what's going on is an important practice for any business, but it is vital in a co-operative for at least three reasons:

1. The democratic control principle, exercised through majority rule, requires that the entire ownership be informed and involved to ensure enlightened decision - making.
2. The co-operative can be responsive to members' needs only if members express those needs, and recognise they must bear the financial burden to fulfill those needs; and
3. The rarity of the co-operative form of business means our education system doesn't give much co-operative instruction in business and economic courses and, therefore, the co-operative must be the educational institution for itself and others.

### **9 Why Do Co-operatives Limit the Return to Shareholders on Equity Capital (Shares)?**

Payments for use of members' equity capital, such as dividends, are limited. This does not mean that benefits realised from the co-operative, monetary or otherwise, are limited. The overriding value of the co-operative to its owners is in the services it provides. Limiting the return on equity capital is a mechanism to support distribution of benefits according to a members' use of the co-operative.

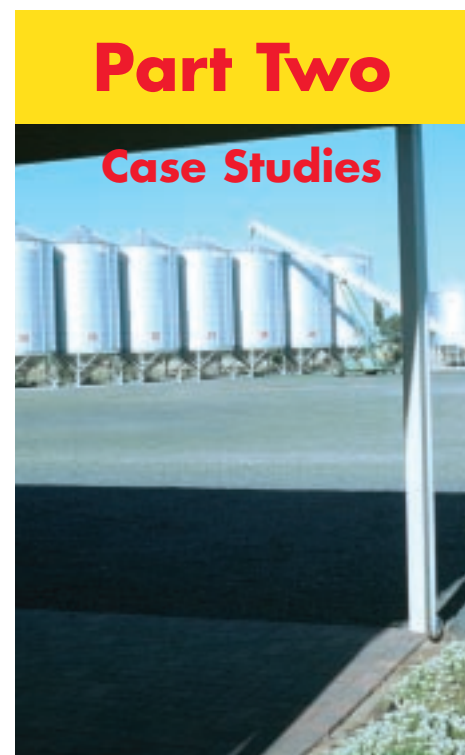
It is intended to help keep management decisions focused on providing services attuned to members needs. The notion of limited dividends to shareholders is supported by co-operative legislation.

The overriding value of the co-operative to its owners is in the services it provides.

**Part Two** - Is about how others did it. Their ideas, successes and mistakes.

**Co-operatives in action, Co-operative Case Studies:**

- **Case Study 1 Peagrowers Co-op**
- **Case Study 2 The Watchem Community Co-op**
- **Case Study 3 Nullawil Farmers Co-op**
- **Case Study 4 Australian Alpaca Co-op**
- **Case Study 5 Nth East Flower Growers Co-op**
- **Case Study 6 Rupnorth Co-op**
- **Case Study 7 The Warrnambool Co-op Society**
- **Case Study 8 Devenish Community Hotel Co-op**
- **Case Study 9 Yeoval Community Hospital Co-op**



### Case Study 1 (May 2001)

#### Peagrowers Co-op Ltd.

"A marketing co-operative for farmers growing new crops"

**Peagrowers Co-operative Ltd. (PEACO) a Trading co-operative.**  
**Mill St. Donald Victoria 3480 Tel. 03 54 971 766**

**Donald** is located on the Sunraysia Highway 280 kilometres from Melbourne. The town has a population of approx 1000

**Primary Activity:** "Purchase, processing, trading and marketing of members' grain, primarily pulses but includes all grains and also other agricultural products, seeds and services. Provision of seed and services to members and also the purchase of contract growing or consulting services from members."

**Active membership requirements:** "Carry out a commercial transaction involving the primary activities of PEACO by the end of any 3 year period."

**Number of directors:** 6 (6 male)

**Number of independent directors:** 2

#### **Background to Formation (1983):**

During the late 1970's and early 1980's a number of North Central Victorian farmers began experimenting in growing crops other than their traditional crops of wheat and barley. By 1981 crops such as canola and field peas were being grown in quantities that exceeded their existing domestic demand.

One or two neighbouring farmers, including Russell Hilton who was to become foundation chairman of the co-operative, began to discuss the problems they could foresee with selling crops that were in-effect, oversupplied. Eventually a public meeting was held at Walpeup, attended by about 50 Southern Mallee farmers, to discuss issues associated with the selling of pea crops. An unincorporated association was formed, the Victorian Field Pea Growers Association, and that association nominated a twelve person working party to investigate and report back on marketing options.

Late in 1981 it did report back with two major recommendations, based on sound research. Firstly, growers were advised to develop on-farm storage facilities to enable crops to be held ready for sale at a time of their choosing, and secondly, for the upcoming season's crop, they were advised that they should not sell field peas at less than \$140 a tonne. The opening price offered was \$120 a tonne, but the growers held firm and no sale was made below \$140. This small success was very encouraging to the growers. Meanwhile the working party continued to meet and it was able to organise seed peas for growers following the disastrous 1982 drought.



### **Formation of the Co-operative:**

The season following the drought saw a huge increase in field pea crops being grown. A public meeting at Longerenong, attended by fifty or so farmers, deliberated on the working party's recommendation "that a co-operative for pea growers be formed." The co-operative model was preferred because it was regarded then as being less complicated to set-up than alternative models, and the notion of all the members being "on an equal footing" was seen as being desirable.

Its (the co-operative) objectives were to continue to address the problems of potential market imbalance by marketing on behalf of the individual grower-members and to encourage and effect storage facilities for the crops. Members were required to purchase 100 shares of \$2 value, partly paid to 20 cents. Thus the 84 initial members contributed total capital of \$1680 and the Peagrowers Co-operative Ltd. was born.

Victorian Department of Agriculture personnel and a director of a nearby grain co-operative in Kerang were extremely helpful with advice and assistance to the formation process.

In the early years the co-operative ran a "pool" and marketed the pooled crop (See Appendix F). The foundation chairman also performed the management role and he was able to arrange a first advance payment to the pool contributors (co-operative members). The problem of over-supply to the market at harvest time was avoided, by arranging storage facilities and developing relationships with potential buyers.

The chairman recognised the importance of the co-operative always owning the "pooled" crops once it took responsibility for marketing them. He had seen earlier failures, and did not want the co-operative to find itself in the disastrous position of not being able to deliver once a sale had been negotiated.

In its first year the co-operative had a turnover of \$300,000.

### **The post-formation story:**

The continued success of the co-operative has greatly assisted and encouraged individual farmers to diversify their crops. In its earlier years it played an important role in both creating and developing markets for the crops its members were growing. Whilst it no longer conducts "pools", its existence as a trader in the market place, continues to "keep the market honest."

By 1999, 16 years after its formation, the co-operative's membership had expanded from the original 84, to over 500 farmers across a radius of 130 kilometres surrounding Donald. Its annual turnover was approaching \$20,000,000, and virtually all its sales of member's crops were exports.

In 1985 the co-operative appointed a part-time manager, who later became full-time, and it has recognised the importance of its Board of Directors having complementary skills and knowledge, by appointing suitably skilled independent (non-member) directors. The independent directors spent 12 months attending board and other meetings in a "probationary" capacity.

Recently some structural tensions have developed around issues associated with financing the continued growth of the co-operative's business and rewarding those members who do business with the co-operative. The Board is contemplating a range of capital-raising mechanisms, and considering issuing bonus shares to members based on the amount of business done with the co-operative. Bonus shares would be fully paid out of profits.

### Case Study 2 (May 2001)

#### The Watchem Community Co-operative Ltd.

"Well done is better than well said"

#### The Watchem Community Co-operative Ltd.

(A non-trading co-op)

P.O.Box 54, Watchem Victoria 3482

**Watchem:** population 200, is located on the Sunraysia Highway, 30 kilometres north of Donald, in the Victorian Mallee.

#### Primary Activity:

"To provide and maintain shop premises, in the capacity as landlord. To enable the leasing out of such, to provide basic retail services to the Watchem district."

#### Active membership requirements:

"A member must use the services of the provided facility over a 3 year period at intervals of at least once every 12 months."



**Number of Directors:** 7 (includes a gender mix)

#### Background to Formation (1990) :

In August 1990 the Watchem store, the town's only remaining retail shop, was destroyed by fire, and the then owners indicated they would not be rebuilding it. The thought of losing their last retail store was the last straw for one or two local residents. They had watched the town lose over a period of years, every other business and government service once located there. It was time for action.

After a series of conversations and discussions between interested individuals, a public meeting was held, at which the suggestion was made that a number of these people consider joining forces to rebuild the store. One person, who later became a foundation member and director of the co-operative, suggested that a co-operative be formed, because it would enable everyone who wanted to, become a member, with the resultant sense of ownership and commitment to its future.

#### Formation of the Co-operative:

Some of the Watchem district community members were also members of existing co-operatives, such as the Peagrowers Co-operative Ltd. located in nearby Donald, and had direct experience and involvement in successful co-operatives.

The importance, in this case, of structuring the co-operative so that every community member could become a co-operative member, irrespective of their financial capacity, was recognised. So the minimum shareholding requirement was set at \$50.

This resulted in 75 individuals becoming the foundation members of the co-operative, contributing capital and taking-up shares according to what they could afford, and very much feeling that they had made a contribution to, and were part of, the co-operative venture. Total paid-up capital was \$54,550 and members and their families also participated in working bees and fund-raising activities in order to secure enough funding to achieve their objective.

### **Post-formation:**

The co-operative built the new store and residence which opened for business in 1991 when it was leased to its first tenants. The store and its various tenants have provided a basic retail service to the residents of Watchem and district for ten years now, successfully satisfying the co-operative's primary activity. The co-operative is the landlord and does not get involved in the store's operations. As a number of the founding members of the co-operative have moved away from the area, support for the store, as opposed to the co-operative, has weakened. People and families moving in to the area haven't joined the co-operative, and as a result haven't been as inclined to utilise the store in the way founding members have done.

So the co-operative venture has been successful, the store continues to operate, but the changing demographics of Watchem have affected its (the store) viability. Recently the co-operative took the decision to reduce the annual rental it had been charging, in an attempt to have a positive impact on the store's ongoing viability.

### Case Study 3 (May 2001)

#### Nullawil Farmers Co-operative Ltd.

"A small rural community markets farmers crops"

"The great end of life is not knowledge, but action"

**Nullawil Farmers Co-operative Ltd. (NULCO) a Trading co-operative.**

**P.O.Box 56, Nullawil Victoria 3529 Tel. 03 5493 5333**

**Nullawil:** population 200, is located on the Calder Highway, 50 kilometres north of Charlton in the Victoria Mallee country.

#### **Primary Activity:**

"The purchase and sale of all grains, pulses and oil seeds, and the production of value-added grain products."

#### **Active Membership Requirements:**

"A member must utilise and support the activity of, or support or maintain a relationship or arrangement with the co-operative in connection with the carrying on of the primary activities of the co-operative."

**Number of Directors:** 5 male

#### **Background to Formation (1994):**

The desirability of taking a co-operative approach to the marketing of crops other than wheat, was recognised by one Nullawil farmer, who was aware of the success of the Peagrowers Co-operative at nearby Donald. He began approaching his fellow Nullawil district farmers, and eventually a public meeting was held to discuss the level of support for a co-operative. The meeting decided to pursue the co-operative idea.

#### **Formation of the Co-operative:**

There were about 36 farmers within the immediate vicinity of Nullawil township and 32 of those became foundation members of the co-operative. Each member was required to purchase 2000 shares of \$1 value, fully-paid, total capital therefore contributed being \$64,000.

The initial management functions were performed by one of the foundation directors, who had in fact been, as mentioned above, the driving force behind the co-operative proposal when it was first mooted.

#### **Post-formation:**

By 1999/2000 the co-operative had an annual turnover of 3 million dollars and was employing 6 staff.

These employment numbers are quite significant in a small rural community.



During the early part of 2001 the original manager resigned and management duties are now being shared, between 3 employees governed by a board of 5 directors. The departing manager strongly advised that the management work-load had become far too great for one person as a result of the growth of the co-operative's business. The board took the decision to split the management functions into three areas. The management staff attend board meetings, and they have been encouraged to undertake various training programs.

The co-operative does value-add to the grains it purchases from its members, thus increasing its profitability. The development of value-added products would be far less likely to have occurred in the absence of the co-operative. It has been an important factor in helping and encouraging its members, diversify their farming activities and become more entrepreneurial in their approach to farming.

It established its own offices and grain storage facilities in the township during 1995, and importantly, the existence of the co-operative in Nullawil was a major factor in the Australian Bulk Alliance (a grain handling consortium) decision to establish an operation in the town, providing additional job opportunities for local people.

Currently the co-operative Board is addressing problems associated with capital-raising, believing itself to be under-capitalised. Funds contributed to the co-operative by its members since the original share issue, have been in the form of loans.

It (the Board), is beginning to understand that a board cannot be all things to all people, that it could probably benefit from the expertise of independent directors, and as a prelude to the appointment of an independent director it has commenced the practice of having their financial advisor sit at board meetings.

Member communication has tended to happen in an ad-hoc way, which is understandable in a co-operative with only 30 members, most of whom live close to one another, but management is planning to introduce a monthly newsletter to the members.

### Case Study 4 (May 2001)

#### Australian Alpaca Co-operative Ltd.

#### "Promoting and Marketing an emerging Australian Agricultural Product"

**Australian Alpaca Co-operative Ltd. (a Trading co-operative)**

**Apparel Close, Breakwater Victoria 3219 Tel. 03 5229 5100**

**Primary Activity:** "The primary activities of the co-operative are:

To maximise returns to grower members by:

Adding value to the raw fibre.

Assisting breeders with feedback on benchmarking their fleece with the overall industry standards, and keeping them informed on the movement in market demand by:

- Warehousing
- Classing
- Blending
- Processing
- Manufacturing,
- Marketing and promotion

2 To promote alpaca fibre as a desirable competitive high quality fibre and to co-operate in the research and development of the natural fibre industry and anything that will benefit the alpaca industry;

3 To develop and market a range of alpaca products for the domestic and international market, and procure for member growers a range of products complementary to running a successful alpaca herd ie. feed, drenches, etc at competitive prices;

4 To acquire and distribute information as to alpaca fibre, classing and standards of preparation, and the conducting of rural industries, and the best manner of carrying on alpaca farming operations profitably.

**Active Membership Requirements:** "To be an active member the member must, over a 3 year period, contribute a minimum of 10 kilograms of fibre to the Co-operative. Should there be any extraordinary circumstances e.g. the effect of disease or the consequences of natural phenomena the Board may review the membership."

**Number of Directors:** 7 ( 2 female)



### **Background to Formation (1995):**

During the 1990's the number of people entering the emerging Australian alpaca industry grew rapidly. Some of these people were aware that if the industry was going to survive over the long-term, it would need to develop on a sound footing. These people did not want to see the Alpaca industry develop in the way that the Emu and Ostrich industries were. It was obvious to many observers that these two industries had little long-term future, because other than the breeding and selling of the animals themselves, there was no product development occurring. Hindsight of course has shown them to be absolutely correct, as both the emu and ostrich industries have disappeared without trace in this country.

In 1993, Alan Hamilton, then President of the Australian Alpaca Association, "flagged" the idea of a co-operative to develop and market products using Australian Alpaca fleece.

The Association had been formed in the early 1990's with a focus on the breeding side of the industry. He eventually presented a preliminary proposal at a general meeting of the Association, and was asked to report back to the Association with a formal proposal. This was done, and in March 1995 the formation meeting of the Co-operative was held. The co-operative was formed with five members who were also appointed directors. Membership grew rapidly once the co-operative was formed.

### **Formation of the Co-operative:**

As mentioned above, the co-operative was formed in 1995 with five member/directors. Membership grew rapidly, with a member being required to purchase 2000 shares of \$1 value, fully-paid. Members were able to sell their fibre to the co-operative, which in turn had it processed to add-value, and then marketed the end-products. The co-operative was having fibre processed by independent textile mills, and it would also accept fibre from non-members, who were paid a lower price than members received. The basic objective was to ensure that sufficient raw fibre was available to enable the co-operative to make an impact in developing a market.

### **Post-formation:**

During 1997 the co-operative was having difficulties in getting its fibre processed by independent textile mills. The board decided that to overcome this problem it needed to have equity in a mill. There were alpaca breeders prepared to invest in a mill, and the co-operative in an attempt to raise capital, in order for it to also invest, announced that as from a set future date, all new members would be issued shares at a premium. Shares issued at a premium require the purchaser to pay an additional amount over and above the nominal value of the share. This strategy was successful, in that it raised enough new capital to enable the co-operative to take a significant stake in the new mill. Currently, the co-operative has 570 members, of whom about 150 joined at that time.

Two new classes of shares were introduced at the cut-off date. 1. Ordinary shares, the nominal value of which is \$1 plus a premium that the Board determines from time to time, currently also \$1. 2. Ordinary Partially Paid shares, the nominal value of which, including a premium, is \$2. These partially paid shares must be paid up to \$500 on application, with the balance payable within 3 years, either by cash or off-set against the value of fibre sold to the co-operative.

Members taking up these new classes of share must hold at least 1000 shares, which is the same minimum requirement as Foundation member shareholders, and no member is permitted to hold more than 15% of the issued shares in the co-operative.

The co-operative employs a part-time office manager and engages a marketing and product development consultant whose efforts are proving to be quite successful. At this stage of its life, it cannot afford to employ management personnel, hence management is a Board responsibility which utilises a number of working parties, consisting of both board and non-board members. Working parties include finance, fibre marketing and product development.

The seven member Board, which has a high degree of various skills and expertise represented through its directors, has in more recent years, prepared a business plan, and is mindful of the fact that only about one-third of the alpaca industry participants are members of the co-operative. This in turn, is impacting on its capacity to create the necessary volume required to develop markets for Australian alpaca fibre products. Current members will need to be rewarded for their commitment and loyalty to the co-operative, when profits are being made. Presumably a lot of participants prepared to "sit on the fence" for the time being, will be anxious to become members when its success is obvious. How the co-operative rewards those who have been prepared to support its establishment and development, could be a critical issue.

The board has recognised that in its early days, communication with members wasn't as good as it could have been, and since 1997 has distributed a quarterly newsletter, "Co-Op Contact" to all its members, as well as all members of the Australian Alpaca Association. It is developing a website and intends to use it extensively as an additional means of communicating with members.

### Case Study 5 (May 2001)

**North East Flower Growers Co-operative Ltd.**

**"Flower growers get organised to meet the market"**

**"A great pleasure in life is doing what people say you cannot do"**

**North East Flower Growers Co-operative Ltd.**  
**(a Trading co-operative)**

**Primary Activity:** "The sourcing and marketing of quality cut flowers, foliage and associated products."

#### **Active Membership requirements:**

"1. To produce quality cut flowers, foliage and associated products to be marketed primarily through the Co-operative.

2. The member must hold 1000 shares in the co-operative.

3. To be an active member, a member must market produce through the co-operative, yielding commission to the co-operative of a minimum of \$100 per financial year, with this amount to be calculated as an average over 3 consecutive financial years.

4. Active membership provisions are to apply as of date of membership, however a part financial year at the beginning of membership will be taken into account when calculating the commission required to meet these active membership provisions. Such a part financial year will still count as the first year, but with a pro-rata calculation to apply for that year.

5. With respect to sub-rule 4 above, any membership period of one month or less can be ignored and membership deemed to commence on the next July 1."

**Number of Directors** 7 (6 male/1 female)

#### **Background to Formation (2000):**

The idea for a marketing group for those growing flowers in North East Victoria began around 1992/93 when a local flower grower, wholesaler and florist observed first-hand the difficulties that small local growers faced in getting their product into the markets. After years of work, studying and pulling together all types of people and organisations, a core group of growers was formed to develop the idea. By 1999 a working party was in place, which settled on the co-operative model for the proposed business. The notion of individuals working together and sharing information seemed particularly appropriate to the co-operative model. However advice received principally from two business advisers, steered the working party away from the co-operative idea.

Neither could give any specific reason why a co-operative shouldn't be used, other than suggestions like, "co-operatives are old-fashioned" and "these days, most co-operatives are converting to companies anyhow".



As a result, the North East Flower Growers Pty.Ltd. company was registered in February 2000. Following this formation, it soon became apparent that a co-operative structure would better suit the needs and objectives of the members of the group. In fact the private company had more members than is permissible and the costs associated with converting to a public company were prohibitive. The growers consulted three legal advisers seeking help, which resulted in the receipt of conflicting advice all-round. Having decided, with the advice of a QC, that a co-operative was what they should have been from the outset, the growers proceeded with the process of converting the company to a co-operative, with the assistance of staff at the Co-operatives Registry.

Foundation Chairman of the Co-operative, Geoff Turnbull says, "Needless to say, further investigation has shown us that a co-operative is the only suitable structure for us. It is a shame that so many people in places of influence know so little about co-operatives."

### **Formation of the Co-operative:**

The company structure was converted to, and registered as a co-operative in November 2000. It had 27 growers as members who took-up 1000 shares of \$1 value and paid a \$200 joining fee. The foundation members were required to fully pay for their shares by December 2000, the amount could be paid in four instalments. Members joining after that date must pay for their shares in full, as well as the one-off joining fee, at the time of application.

The co-operative charges commission on produce marketed through it. Members are charged at half the rate payable by non-members.

The co-operative board of directors can set an annual membership subscription from time to time, or as agreed by the membership at the Annual General Meeting.

### **The post-formation story:**

The co-operative has a board of 7 directors, and overall management is provided by the Chairman, and other directors who also volunteer their time are involved in the co-operative's management, each taking responsibility for individual functions such as finance and marketing. Initially the co-operative employed a marketing manager, but found it more satisfactory in the development stage, to do the job itself.

Members are located within a radius of 150 kilometres from Wangaratta, where the co-operative's operations are conducted. Most grower product is channelled to Wangaratta for distribution and sale.

This enables quality control measures to occur in a "cost-effective" way.

The co-operative does not use the traditional wholesale market, preferring to develop relationships with individual clients. This approach is proving to be quite successful, and could not be achieved if the growers were marketing and selling their product individually.

Interestingly, the grower group initially had a feasibility study conducted which concluded that they would not be viable. Unfortunately the study did not really address the range of issues that the group had in mind, with the result that it drew conclusions that were not relevant to them.

Basically, the grower group felt that the consultants didn't listen to them, in order to understand what they intended doing, tending to have pre-conceived ideas of their own.

The co-operative now has a business plan which it developed itself, and despite all the problems associated with its establishment, is extremely confident about the future of its business. It anticipates an annual turnover in the first full year of operation, of about \$100,000, and it intends increasing membership by about ten members per year in the foreseeable future.

Member communication is regarded highly. The co-operative produces a monthly newsletter for its members, holds member meetings every month or so on one of the member's property, and as most members are online, it conducts an online discussion forum for them.

### Case Study 6 (May 2001)

#### Rupnorth Co-operative Ltd.

"Small farmers originally get together to achieve discounts on inputs"

"Adventures are to the adventurous"

**Rupnorth Co-operative Ltd. (A Trading co-operative)**  
**Executive Officer, 603 Howard St. Ballarat Vic. 3350**  
**Tel 03 53 324 765**

#### Primary Activity:

"In accordance with Part 6 of the Act, the primary activities of the co-operative are to provide insurances, fertilizers, chemicals and general merchandise to members."

**Active Membership Requirements:** "A member shall be required to purchase annually a minimum of \$2000 in any of the following activities: insurance, fertilisers, fuel, chemicals or general merchandise."

**Number of Directors:** 5 including one independent director.



#### Background to Formation (1970):

Rupnorth Co-operative was established in 1970 from a group of about seven farmers between Rupanyup and Minyip, that had banded together to purchase a delver for cleaning channels after the '69 drought. This group, initially, was very informal and loose knit. After a while some of the members started to discuss the idea of buying inputs for their farms. At that stage the membership chiefly consisted of smaller farmers and it proved to be relatively easy to obtain discounts for sizeable purchases through combining their individual purchasing requirements. Out of this grew the concept of forming a co-operative.

#### Formation of the Co-operative:

The first official meeting was held in the now closed Rupanyup North School, abbreviated as Rupnorth school. This is how the co-op started and was named. There were 7 foundation members.

The core business of the co-operative was the purchase of inputs for farming and it dealt with a variety of businesses, both locally and further afield.

Members were required to take-up 600 shares of \$1 value and pay an annual membership fee.

#### Post-formation:

The members became accustomed to being price makers as against price takers, as the success of the co-operatives' purchasing business consolidated itself.

The small group of farmers now had a direct influence on prices in the commodities they dealt in across the Wimmera. Current membership is 60.

Rupnorth had its first attempt at marketing members' grain during the 1990 grain season, which was a successful venture. Barley deals grew, until in 1996 the co-operative rented its own storage bunker.

The same year it negotiated a deal on a parcel of chick peas. The structure of the deal was very successful, but it ended in failure because the then board of the co-operative was unable to make a decision within the allotted time span. Basically the board could not agree to the sale of chick peas at the price that had been negotiated.

During this very challenging time, Rupnorth had opened a shopfront where all the products that it dealt with were available as well as agronomy advice for all members. There were 3 full-time employees, including an executive officer, and the co-operative was turning-over several million dollars annually.

Membership at this time was around 130. After the frost in 1998, a small number of members started to question the validity of the business direction the co-operative was taking. A business analysis and plan was completed by consultants who recommended the closure of the shop, dismissal of the employees and sale of all co-operative assets. Membership fees were to be paid up-front annually, regardless of whether the member used the co-operative or not, as an alternative to charging commission on sales effected through the co-operative by members.

Over the next six months, half the membership resigned as they could not justify the cost of being a member, because they did not use the co-operative. This transition changed the outlook of the co-operative, the remaining members being committed to its success. A new executive officer was appointed in 2000. The members are currently primed for changes in the area of grain marketing associated with impending deregulation of that industry. The board is also putting together an education program designed to address issues such as quality assurance, management and marketing training.

The co-operative believes it has a lot to offer through joint ventures and networking arrangements, but at the same time recognises the importance of taking the membership with them by lifting the understanding and education of the membership through courses focusing on what happens outside the farm gate.

### Case Study 7 (May 2001)

The Warrnambool Co-operative Society Ltd.

"From Little Acorns Big Oaks Grow"

The Warrnambool Co-operative Society Ltd. (a Non-Trading co-operative with shares)

259 Timor Street, Warrnambool, Victoria, 3280

Tel. 03 5561 9500

#### Primary Activities:

"In accordance with Part 6 of the Act, the provision of goods and services to its members is a primary activity of the co-operative."

**Active Membership Requirements:** "A member shall purchase goods and/or services from the co-operative to the value of a minimum of \$100 over two consecutive financial years in order to retain active membership of the co-operative."

**Number of Directors:** 7 (2 female)



#### Background to Formation (1960):

After a series of interest meetings held between August and December 1959, the idea of forming a co-operative to provide Artificial Breeding services to farmers in the Warrnambool district, was eventually mooted.

In March 1960 a general meeting was held in the Allansford Hall and a co-operative was formed, named Allansford & District Artificial Breeding Co-operative Society Ltd. It had 33 foundation members, including some well-known district names, who undoubtedly provided the sense of leadership, so often critical when new ventures are proposed.

#### Formation of the Co-operative:

The 33 foundation members subscribed capital of seven pounds ten shillings (\$15) each, which totalled about \$480 in today's currency.

A part-time secretary and one employee were appointed. That employee was to become Manager, and eventually Managing Director of the Warrnambool Co-operative, many years later.

The co-operative's activities were the provision of dairy herd artificial insemination services to members. Membership, as it has always done, grew considerably, and during 1961 reached 163.

In 1969 the co-operative changed its name to The Warrnambool Artificial Breeding Co-operative Society Ltd. and in 1976, with membership exceeding 1000, changed its name again, this time to The Warrnambool Co-operative Society Ltd. Over the years it has become known generally in the Western District, as The Co-op.

When long-serving Managing Director, Bill Quinlan retired in 2000, after 40 years with the co-operative he reflected the following thoughts. "In the early days we encountered a lot of pressure from other retailers and service providers.

Because we discounted products to our members, and set our own pricing policy which was below the recommended retail prices, many retailers put pressure on suppliers not to supply goods to the Co-op.

As we built the business and generated volume sales the suppliers could no longer ignore us, as we became a major player in the supply of merchandise, herd improvement and other rural services."

"From the time the Co-op was formed we have had a passion to provide members with benefits. Members have received substantial benefits over the life of the Co-op, estimated to total several million dollars."

### **Post-formation:**

It is simply not possible to tell the whole story of 40 years in the life of a co-operative, in this study.

The co-operative's growth both in terms of membership and turnover has been steadily consistent, as it has always sought to provide new services and benefits to its' members. It commenced life, as mentioned earlier, in 1960, providing an artificial breeding service to members, but as early as 1963 it had become a retailer of sorts, with selected merchandise mainly rural health products, being sold direct from the boots of cars. By 1966, with a membership exceeding 500, it was forced to find larger premises in order to cope with the demand for its services.

The ensuing years are a litany of achievements and milestones, generally measured in terms of turnover and membership. By 2000, forty years after its birth, the co-operative's 9000 plus members, who are required to purchase 75 x \$2 shares paid to 60cents, were able to receive discounts on purchases made at the co-operative's Department Store, one of the biggest of its kind in rural Victoria, the Rural Store headquartered in Warrnambool with branches in Terang and Colac, or by using the Western Herd Improvement division services. Total Member rewards reached the million dollar mark.

Sales and service income exceeded 36 million dollars. Net assets had grown to 8.7 million dollars.

The highly successful Co-Card, introduced in 1996, continues to generate additional benefits to members via approximately 200 Co-Card Agencies. These Agencies give Co-op members a range of discounts on purchases made with them. The purchase is billed to the member on their monthly Co-op account. In less than 5 years since its inception the Co-Card has produced over \$750,000 dollars of discounts to members.

The value of membership has always been a high priority of the Board of Directors and management team, who are committed to continually building the business to meet member's immediate needs.

### Case Study 8 (May 2001)

**Devenish Community Hotel Co-op Ltd.**

**"If you want a thing well done do it yourself"**

**Devenish Community Hotel Co-operative Ltd. (a Trading Co-operative)**

**Devenish Victoria 3726 Tel 03 57 644375**

Devenish has a population of about 120 and is located 30 kilometres north of Benalla in North East Victoria.

**Primary Activity:** "In accordance with Part 6 of the Act, the operation of a community hotel is a primary activity of the co-operative."

#### **Active Membership Requirements:**

"A member shall purchase an alcoholic or non alcoholic beverage or a meal or other food, or use meeting facilities at least once over a three year period in order to establish active membership of the co-operative."



**Number of Directors:** 5 (4 male/1 female).

#### **Background to Formation 2000:**

After a long period of gradual loss of just about every business typically associated with small rural towns, by 1999 the only services left operating in Devenish were the general store and the hotel.

The Devenish Hotel had been owned and operated by the one family for many years. Due to a combination of circumstances, the family had attempted, unsuccessfully, to sell the hotel for some time. A local resident, who later became chairman of the co-operative, "floated" the idea of a number of people contributing \$10,000 each, and purchasing the hotel. There was not enough response to that proposal. Meanwhile the hotel trade continued to decline, and for some time the possibility existed, that it might close its doors for good.

In February 2000 at a meeting of the Devenish Sports committee, the talk got around, as was often the case at that time, to "what can we do about the pub?" A brainstorm session resulted which threw up the notion of forming a co-operative to purchase the hotel. The suggestion was made that minimum capital per shareholder be set at \$1000, to enable as many residents as possible, to join the co-operative.

A group of four residents, "the working party", was asked to do some "leg-work" and research the co-operative idea.

#### **Formation of the Co-operative:**

A public meeting was held about a fortnight later which found enough interested people prepared to commit themselves to membership of the co-operative and provide the capital required to effect the purchase of the hotel. Formation advice was sought and received from a local solicitor and accountant.

The Disclosure Statement required from every intending Trading co-operative, and often used as an excuse for avoiding the co-operative model, was prepared in the main by the Co-operative's foundation secretary. The Registry of Co-operatives, and the Yinnar Community Hotel Co-operative Ltd. also provided great assistance, and the Devenish Community Hotel Co-operative was formed in June 2000 with 69 member/shareholders contributing various amounts of capital, consisting of a combination of shares purchased in, and loans made to, the co-operative. This meant that approximately half the town's population became shareholders.

The nominal value of shares is set at \$1, with each member being required to purchase a minimum of 1000 shares, partly-paid to 10 cents. Simultaneously, the member is obligated to lend the co-operative an amount equal to 90% of the nominal value of the shares purchased. This capital raising approach was suggested by the co-operative's accountant, citing taxation advantages for members.

While this was happening the "working party" had negotiated the purchase of the hotel, on behalf of the co-operative.

### **Post-formation:**

The co-operative has prepared its own business plan and employed a trainee manager for the hotel.

Trading figures are consistent with budget projections. Volunteers drawn from the membership fulfil a variety of roles, integral to the hotel's operation. Volunteers are likely to be called upon until the hotel's trade increases its viability. The co-operative's existence has encouraged and enabled people to discover talents they didn't know they possessed. Another "spin-off" of the volunteer program has been the development of community relationships, crossing the traditional groups that friendships and relationships usually develop in, e.g. football club, farmer organisations and town versus out-of-town residents. Those associated with the co-operative say that the success of this co-operative venture has resulted in people growing in confidence, and having pride in their collective achievement.

The Board of Directors meets monthly, but interestingly, the co-operative also conducts monthly shareholder meetings. These shareholder meetings facilitate communication and build on the member/co-operative relationship. Generally the shareholder meetings are attended by anything from 12 to 30 or more members.

The bar has become a big meeting place for the town, with people who had never before set foot in the hotel now calling in on a regular basis, not necessarily for a drink, but to support its future in whatever way they can.

### Case Study 9 (May 2001)

#### Yeoval Community Hospital Co-operative Ltd.

"The first multi-purpose health centre in NSW"

"The action is best, which procures the greatest happiness for the greatest numbers"

**Yeoval Community Hospital Co-operative Ltd. (a Non-Trading co-operative)**

**3-7 Lord Street, Yeoval NSW 2868 Tel. 02 6846 4100,**

**Website: [Http://www.lisp.com.au/~ychc/index.html](http://www.lisp.com.au/~ychc/index.html)**

**Yeoval:** is a rural town located in Central Western New South Wales. Population around the town is 550, and a district population of around 1500. The rural cities of Orange and Dubbo are both about 75 kilometres from Yeoval, in opposite directions.

**Primary Activity:** "The provision of hospital and related health and aged care services."

**Active Membership requirements:** "Payment of Annual Membership fee, \$10."

**Number of Directors:** 9, 3 male, 6 female

#### **Background to Formation (1989):**

When Yeoval Public Hospital was closed by the NSW Government in 1988, because it was deemed non-viable, it left the town with no more than an accident and emergency service, open just 5 days a week, eight hours a day.

The local community, however, was not prepared to lose its hospital without a fight. Following the hospital's closure, concerned residents held a number of public meetings, and with the support of a number of people, including their State Government member who was a staunch advocate of co-operatives, they agreed to form the Yeoval Community Hospital Co-operative Ltd. at a public meeting held in January 1989. Over 250 community members became foundation shareholders of the co-operative.

#### **Formation of the Co-operative:**

The co-operative decided to create the first Multi-Purpose Health Centre in NSW. A board of nine volunteer directors was elected. Almost \$100,000 was raised through local charities and from the co-operative's 250 shareholders who were required to purchase 5 shares of \$2 value, fully paid. The co-operative also successfully lobbied the Federal Government, which provided more than \$300,000 under an Aged and Community Care Program.



The State Government agreed to make the funds it would have contributed to the hospital, had it remained in State hands, available to the co-operative; and the Co-operative Development League (a NSW Government initiative) guaranteed bank loans to get the project going.

It (the Co-operative Development League) also carried out a feasibility study and prepared a business plan on behalf of the co-operative.

The Yeoval Multi - Purpose Health Centre was re-opened in July 1989 with a seven bed Hospital and a seven bed Nursing Home.

### **Post-formation:**

The co-operative now has over 450 shareholders, including most of its 50 or so staff members. The importance of this large local membership cannot be underestimated. Yeoval has shown that, not only can the costs associated with the provision of a Health Care service be reduced by community ownership allowing better flexibility in administration and staffing, but profits can be made, thereby enabling the expansion of basic services.

In 1992 it opened a nine bed Hostel costing approximately \$450,000. In 1999 an eight bed Special Care Unit for dementia residents was opened, complete with renovations to Administration, Doctors Surgery, Physiotherapy room and Staff room, at a total cost of \$500,000. From losing their "non viable" 8 bed public hospital in 1988, the community of Yeoval currently operates a very cost effective Multi-Purpose Health Centre consisting of : 7 bed hospital, Accident & Assessment Room, 9 bed Nursing Home, 9 bed Hostel, 8 bed Special Care Unit for dementia, Day Care Centre, Physiotherapy, Community Care Packages, Volunteer Ambulance, Meals on Wheels, Doctors Surgery and X-ray facilities.

The co-operative in building this facility has spent over \$1.5 million and is debt free. Foundation Chairman and Chief Executive Officer, Col Francis says, "We wouldn't be where we are today, without the co-operative structure and its unique way of involving the entire community in the hospital and its future."

Community spirit working to achieve a common goal, a sense of achievement, pride of ownership motivation and incentive to cater for local needs all contribute to the success of the centre.

The Board recognises that effective management of the co-operative's financial resources is critical to its survival. Recent financial statements indicate that in all except one year, the co-operative has achieved a financial surplus. It also places an emphasis on communication between itself, staff and the community.

The co-operative's impact on the local economy has been crucial; it has an annual payroll of \$1 million and is the largest local provider of employment. The co-operative model has placed control of the Health Centre in the hands of the local community, it has become their Health Centre. Local community involvement in Yeoval has resulted in a great Health Centre, and has produced many other beneficial effects, not the least of which has been the drawing together of the community, and the re-establishment of local pride in achievement.

**Part Three** - Resources and sources. Points of reference for those wanting to be successful in business and in working together as a co-operative

**Appendix:**

**A Business Planning** Pages 2 to 5

**B Co-operative Principles and Ideals** Page 6

**C Tips from the experts** Pages 7 to 9

**D Bibliography** Pages 10 to 11

**E Organization Contact List** - where you can get useful

Co-operative information page 12

**F Glossary of Terms** - Page 13



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Business Planning **Pages 2 to 5**

### Appendix B

Co-operative Principles and Ideals **Page 6**

### Appendix C

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Glossary of Terms **Page 13**

### Business Planning

#### Why plan?

Like all businesses, from the small owner through to large proprietary companies, co-operatives have one thing in common - they have a product/s to sell and they have a competitive market place to compete in.

Successful businesses, irrespective of their business structure, know where their operation is going and they astutely manage all the necessary ingredients for achieving their goal.

The primary purpose of the business plan is to develop a set of well thought through directions that will help steer the business to success. The plan itself will not achieve success, it is the thinking behind the design of it and the energies applied in getting those thoughts into action that make a project successful. A plan is nothing more than a guideline. Like a house plan it provides a structure for getting the project into being.

The feasibility study (ie careful and well directed research into the proposals opportunities in the market place) is an essential prerequisite before developing a business plan. The notes in this Appendix give a brief outline of how a Business Plan is structured along with good references for sources of help and advice.

### Business Plan Outline

#### Summary

This is a concise description of your business and must catch the readers attention. The reader should be clear about your business after reading this section; then want to spend time working through the rest of the document.

#### Description

Is a description of your co-operative and includes: Legal name and Business Form; your mission and objectives; management names; location; products and services; your co-operatives development stages and relevant special information.

#### The Industry you are in

It is important to understand the industry sector you are in if you want to make a success of your venture. Your co-operative does not operate in isolation, it is part of a larger overall industry sector.

The different forces, positive or negative, affecting your industry sector will inevitably affect your co-operative. Simply stated, an industry sector consists of a range of others supplying similar services or products and other businesses closely associated with them.

Areas you should understand include the following: Trends such as size and growth; economic factors and how vulnerable you will be to them; the industry's development stage ie new or mature; factors such as seasonal and technical issues; financial considerations; regulations; the issues of distribution and supply and other information you consider important to your industry.

### **Your Target Market**

Understanding who your customers are is vital to the success of your co-operative. Success of your venture depends on identifying and meeting the needs, actual and potential, of your customer. To do that you must know as much as possible about them this includes: who they are and where they are; their buying sensitivity; purchasing patterns; trends and size; etc.

### **The Competition**

It is important that your co-operative is aware of who your competitors are. All businesses have competition; mature businesses are highly aware of those competing for their business dollar. New businesses, in their enthusiasm for their new idea, must be careful that they don't underestimate the competition that already exists. Ignoring your competitors could put your business at great risk.

Aspects of your competitors that you should understand include: who your main competitors are and what they are about; the market share distribution; competitive positions; key opportunities; barriers facing your entry into the market.

### **Marketing and Sales Strategy**

Marketing is about finding and developing a customer base. If you can't get customers you will not stay in business. An effective well thought through marketing plan and approach is the key to success.

It is important to spend time developing affordable and effective strategies that ensure you will get buyers for your products. A marketing plan and strategies will include: the message you send to your potential customers; how you will position your co-operative in the market; your marketing methods and the medium you will use to get your message out; your sales approach and procedures.

### **Operations**

How will you run your co-operative? It is important to identify the procedures for running your co-operative even if you do it in brief outline form. It is about daily routines and functions and getting them right so that you give your co-operative every chance of success. Examining basic operational concepts is essential for internal planning and sound management. Operational matters can include:

manufacturing and plant facilities, equipment and technologies; production plans; labour requirements; distribution; supply; service - customers and orders; managing the inventory; research and further development; quality control; OHS; Information systems and the many other operational matters unique to specific industries.

### **Management and Organization**

The key to running a co-operative better than your competitors will revolve around the quality of your management team and their organizational approaches. The personalities and skills of your management team will determine your long term chances of success. Plan carefully and select carefully to ensure you have the necessary expertise to run the co-operative profitably and successfully.

This includes: your principal employees, your co-operative Board of Directors; any consultants. It also includes: a well developed organizational chart; developing and encouraging a co-operative culture and appropriate management style.

### **Development and Exit Plans if appropriate**

This is about establishing: long term goals and milestones, charting strategies for growth and taking care about identifying and evaluating potential risks.

### **Financial Information**

Income and cash flow statement; break even analysis (if you think it worthwhile)

### **Balance Sheet**

### **Appendix**

### Government Small Business Services - available regionally in Victoria

#### **Small Business Victoria Melbourne**

Level 5.55 Collins St  
Melbourne 3000  
Victorian Business Line 13 22 15  
Fax 03 9651 9725

#### **Ballarat Victorian Business Centre**

cnr Sturt and Camp Streets  
Ballarat 3350  
03 5320 5910  
Fax 03 5331 2470

#### **Bendigo Small Business Victoria**

189 Lyttleton Terrace  
Bendigo 3550  
035434 6246  
Fax 03 5434 6206

#### **Dandenong Victorian Business Centre**

314 Thomas St  
Dandenong 3175  
03 9791 8572  
Fax 03 9794 5644

#### **Geelong Victorian Business Centre**

69 Moorabool St  
Geelong 3220  
03 5223 3105  
Fax 03 5229 9503

#### **Mildura Small Business Victoria**

84 Deakin Ave  
Mildura 3500  
03 5021 0966  
Fax 03 5022 1453

#### **Moonee Ponds Victorian Business Centre**

Suite 3, 687 Mount Alexander Road  
Moonee Ponds 3039  
03 9326 2805  
Fax 03 9326 1561

#### **Shepparton Victorian Business Centre**

3/164 Welsford St  
Shepparton 3500  
03 5831 2955  
Fax 03 5822 2554

#### **Traralgon Victorian Business Centre**

33 Breed St  
Traralgon 3844  
03 5174 9233  
Fax 03 5174 7845

#### **Vermont Victorian Business Centre**

520 Canterbury Road  
Vermont 3133  
03 9874 8693  
Fax 03 9874 5135

#### **Wodonga Victorian Business Centre**

6/22 Stanley St  
Wodonga 3690  
02 6056 3288  
Fax 02 6056 2334

#### **Wangaratta Victorian Business Centre**

36 Ford St  
Wangaratta 3677  
03 5721 6988  
Fax 03 5721 2265

### Co-operative Principles and Ideals:

Co-operatives are guided by seven principles, as defined in legislation, and formally expressed by the International Co-operative Alliance at its congress in Britain in 1995.

#### These are:

**1. Voluntary and open membership** - Co-operatives are voluntary organisations open to all persons able to use their services and willing to accept the responsibility of membership without gender, social, racial, political or religious discrimination.

**2. Democratic Member Control** - Co-operatives are democratic organisations controlled by their members who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are organised in a democratic manner.

**3. Member Economic Participation** - Members contribute equitably to and democratically control the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities as approved by the membership.

**4. Autonomy and Independence** - Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative's autonomy.

**5. Education, Training and Information** - Co-operatives provide training and education for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of co-operation.

**6. Co-operation Among Co-operatives** - Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

**7. Concern for Community** - whilst focussing on their members needs and wishes, co-operatives work for the sustainable development of their communities through policies approved by their members.

### Tips From the Experts

It is strongly recommended that in the first year of the life of a co-operative, the directors should meet at least monthly.

It is a good idea to issue shares partly paid. For instance, instead of issuing 1,000 shares of \$1 fully paid, why not issue 2,000 shares of \$1 paid to 50 cents. This gives the Board flexibility in making calls on capital without having to persuade shareholders to apply for additional shares. A minimum gap between calls should be inserted in the rules.

Quite often, co-operatives are formed with the initial members prepared to contribute capital and accept what-ever risk is involved with becoming foundation shareholders before the business has proved successful.

Subsequently, when the business is up and running and making a profit, prospective shareholders who have previously "sat on the fence", may then be eager to become members. It may be advisable to issue these later admission shares with a premium to offset the fact that these shareholders have come in at a later date than the initial "risk taking" shareholders. The premium might be in the range of 5% to 10% if shareholding is sought from a new member later than one year from the date of incorporation and perhaps 15% after two years or more.

Membership unity and commitment are key elements to attain objectives and they rely on communication which is plain, simple, clear, and unambiguous.

Objectives must be realistic and achievable.

Be prepared to pay for sound professional advice from appropriate parties, to supplement knowledge, instead of total reliance on volunteers.

Members must allow the Board to manage and administer on their behalf.

Member interest and involvement requires informed and constructive ideas and opinions, and intelligent, constructive criticism, not destructive, emotive criticism which has the potential to undermine or destroy the co-operative's viability.

There must be a commitment to honesty, integrity and truthfulness in all matters affecting the co-operative.

### **A co-operative must guard against :**

- Hijacking of the co-operative and its objectives by management or elements of the membership.
- Differing agendas which are not common to the majority of the members.
- Directors failing to understand the needs and motivation of the membership.
- Misguided advice and assistance, incompetence and over-confidence in peoples' abilities.
- Ignorance of the law and the co-operative's legal obligations.
- Member apathy or alienation.
- Poorly stated objectives which can confuse members and lead to false expectations about the co-operative's direction and aspirations.

Legal advice - in seeking legal advice it is important to establish that the legal adviser has some knowledge of co-operatives and preferably, has previously worked with co-operatives.

Advisers generally. Before a decision is made to engage an adviser the following issues need to be addressed:

- What is the problem - the definition and boundaries.
- What attempts have been made to resolve the problem.
- What resources have been used to address the problem.
- What has been the outcome of applying those resources.
- Whether these resources were used effectively and whether they could be used more effectively.
- Whether the resources have been adequate and appropriate and, if not, under what conditions they could be adequate and appropriate.
- Whether the necessary and appropriate skills exist to effectively utilise and/or acquire the necessary resources.
- If, as a result of this analysis it is determined that the co-operative needs to engage an adviser or consultant, then, the following steps are necessary:
  - Prepare a brief description of the nature of the co-operative (objectives, structure and business activities), the problem (e.g. insufficient sales volume), solutions tried and/or examined (e.g. lower prices, increased sales skills and new marketing strategy), why an adviser is required and the time constraints (e.g. ongoing, three months), budget (either fixed or within arrange or subject to proposal received) accountability requirements (e.g. fortnightly meetings) and payment procedures (e.g. 50% initially, 25% on receipt of progress report and 25% on receipt of final report)
  - Compile a short list of advisers and invite them to pre-interviews.
  - Pre- interview a selected number of consultants.
  - In interview ensure the advisers have relevant business experience, relevant co-operative experience, understanding of the co-operative's requirements, empathy with co-operative enterprises and an ability to communicate appropriately.
  - Request the interviewed advisers to subsequently submit a resume and tender to the brief.
  - Interview a minimum number of advisers and make a decision based on price, timing, scope, accountability procedures, proposed outcome for the price, relevant business and co-operative experience, responsiveness to directors and willingness to listen and ability to communicate clearly and effectively.

Having made a decision, a written contract should be prepared between the co-operative and the chosen adviser. The contract must clearly specify the terms and conditions of engagement so as to minimise any misunderstanding between the co-operative and the adviser.

The arrangement with the adviser should specify:

- The commencement and end dates.
- The agreed payment and purposes by allocation.
- A schedule of payments by amounts.
- The obligations of the adviser.
- The obligations of the co-operative.
- A procedure if there is a subsequent dispute between the parties on the terms and conditions of the arrangements.

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A Guide For Young Entrepreneurs'  
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Shared - Services Cooperative', United States Department of Agriculture, Rural Business  
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Co-operatives organized?'  
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United States Department of Agriculture, Agricultural Cooperative Service, 1991, 'How To  
Start a Cooperative', Cooperative Information Report No.7, November 1991

### Selected Further Readings.

#### Formation Readings

Bolger, William A., Co-operative Legal Services: 'An additional member benefit for  
co-operatives and credit unions'. National Consumer Cooperative Bank, 1983.

Cobia, David. (Ed) 'Cooperatives in Agriculture', Prentice Hall Career & Technology, 1989.

Dodge, Philip. 'How to form a Food Co-op', Consumer Co-op Center, Truman College, Illinois  
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Gill, Anthony., 'Starter Kit for a Treegrowers Co-operative', Australian Forest Growers 1999.

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Zimelman, Karen., Coontz, E. Kim, and Malan, Audrey.,

'Steps to Starting a Marketing Co-op', Center for Cooperatives, University of California and North West Cooperative Federation, 1996.

### **History Readings.**

Lewis, Gary. 'A Middle Way:Rochdale Co-operatives in New South Wales 1859-1986, Australian Association of Co-operatives Ltd., 1992.

Lewis, Gary. 'An Illustrated History of the Riverina Rice Industry', Ricegrowers' Co-operative Ltd., 1994.

Lewis, Gary. 'People Before Profit:The Credit Union Movement in Australia', Credit Union Services Corporation (Australia) Limited, 1996.

Todd, Jan. 'Milk for the Metropolis:A Century of Co-operative Milk Supply in New South Wales', Hale & Ironmonger, 1994.

Watson, Catherine. 'Just a bunch of cow cockies:The story of the Murray Goulburn Co-operative', Murray Goulburn Co-operative Company Limited, 2000.

### Organization Contact List

#### Co-operative Federation of Victoria Ltd.

Telephone 03 57282005  
Fax 03 57 282 284  
email: cfedv@netc.net.au  
Website: www.co-opfed.net.au

#### The Federation has the following resources and documents available:

Co-op Advantage Developing Directors of Co-operatives Kit and Workshop Program. Suitable to current and potential directors.

Co-operative formation documents:

- The Formation Decision
- The Formation Process
- The Formation Check List

Co-opDoc - A co-operative publications data base enabling the sourcing of documents about aspects of co-operation, that can assist in the formation and development of co-operatives.

The Co-operative Difference and Advantage document. Discussing issues important to the ongoing development and success of a co-operative.

Co-operative Development Readings document. Listing of publications relevant to co-operative development.

#### Consumer Business Affairs Victoria

The Registrar of Co-operatives  
Telephone 9627 6200  
Fax 96276210  
Website: <http://www.consumer.vic.gov.au>

#### From the CBAV Website you can access the following:

- 1 "Guide to forming and running a Co-operative"
- 2 Co-operatives Act 1996
- 3 Model Rules of a:
  - Trading Co-operative
  - Non Trading Co-operative with shares
  - Non Trading Co-operative no shares
  - Non Trading Co-operative with shares (Gov-guaranteed)
- 4 Form of Annual Report for your co-operative
- 5 Application to approve, name, rules and disclosure statement of your co-operative
- 6 Application to make changes to your co-operative.

**ACCORD** - Australian Centre for Co-operative Research and Development.  
<http://www.co-operativesonline.com>

### Glossary of Terms

#### Primary Activity:

The Co-operatives Act (1996) requires a co-operative's rules to specify and describe its primary activity. This is generally related to the co-operative's main purpose. For examples see Case Studies.

#### Active Membership requirement:

The Co-operative's Act requires that in order to continue to enjoy the rights of membership, members must always meet an "activity" standard, an agreed level of member involvement, set out in the rules.

This helps to ensure the co-operative cannot become dominated by the interests of a group of people who have no interest in its ongoing operations. (See Case Studies)

#### Disclosure Statement:

To be submitted by a Trading Co-operative upon registering.

The following matters must be included in the disclosure statement:

- the proposed trading activities of the co-operative
- membership and shareholder provisions
- information about contracts with other bodies
- proposed office holders
- formation costs and financial projections for the co-operatives 1st year of operations

#### Crop Pool

Crops are consigned to a selling organisation e.g co-operative, which sells to the market over a period of time, as favourable prices are negotiated.

Farmers receive progressive advance payments from the selling organization and a final payment is made when the full sale of the crop pool is completed.