

# SOUTH CAROLINA COOPERATIVE GUIDE



**COOPERATIVE EXTENSION**  
*College of Agriculture, Forestry and Life Sciences*



**THE CENTER FOR COOPERATIVE  
AND ENTERPRISE DEVELOPMENT**  
SERVING RURAL SOUTH CAROLINA



Agribusiness Center for  
Research & Entrepreneurship

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE



AGRIBUSINESS SOLUTIONS





## South Carolina Cooperative Guide

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## CHAPTER 1 THE IMPORTANCE OF COOPERATIVES

The cooperative structure is an established community entity with solid roots in agriculture. A cooperative is legally owned and democratically controlled by its members, which allows them to share in its social and economic success and more evenly distributes risks experienced throughout the season. Cooperative members are generally those who use the cooperative. However, a cooperative can also be represented by employees, customers, or suppliers. A producer or farmer-owned cooperative is controlled by the producer members who use its services, such as processing, marketing, or bulk supply purchasing.

As cooperative members, producers can better negotiate and agree on a price for their product, giving them more leverage with buyers. This negotiating power allows producers to receive a premium for their products and set higher standards for buyers.<sup>1</sup> Membership fees provide working and investment capital for the cooperative, and profits are distributed to the members.

The desired objectives for a cooperative typically include:

1. Farmers have a long-term, secure market for their crops at prices that provide a comfortable living for themselves and their families.
2. Consumers have convenient access to high-quality local food at a price comparable to current quality food prices.

3. Everyone in the community has secure access to enough healthy food.
4. Farmers and consumers get to know each other and appreciate and respect others' contributions to the community.
5. Consumers are healthier and engaged and use the available food/health teaching resources, such as recipes, nutrition assessment, and information/ classes on preserving, growing, etc.
6. Youth are empowered to see and build upon a community striving to feed itself with local food into future generations.

## BENEFITS OF COOPERATIVES

Cooperatives can play a role in economic and social revitalization, help farmers market their produce, realize greater efficiencies by working together, and may have a charitable purpose.

**Economic and Social Revitalization:** Cooperatives can help farmers succeed by uniting members, providing scale, coordination, and improved marketing. Cooperatives can also increase profit and productivity for local farmers and directly impact the community economically through local retention of these food dollars.

<sup>1</sup>Agricultural Cooperatives in the 21st Century: The Progression Towards Local and Regional Food Systems in the United States, 2015, Sara Servin

**Farm produce marketing and branding:** The cooperative may promote farm brands as part of their marketing strategy. This promotion gives an advantage to farmers over selling wholesale, as the farm name usually ends with wholesale buyers. When cooperatives promote producers in their marketing, everyone wins: the cooperative has an effective marketing strategy, the farmers gain brand exposure, and the customer knows from whom they are buying.

**Efficient use of human resources:** Efficiently operating a venture of this type requires numerous job duties. In many cases, multiple job duties are performed by one employee, saving on staffing costs. In addition, full-time staff can be supplemented with part-time help, seasonal labor, and volunteer staff. Because food cooperatives often function based on an underlying social mission, using volunteer labor helps engage the community while providing cost savings for the business.

**Shared overhead and infrastructure:** Many cooperatives benefit from shared overhead and infrastructure expenses that would otherwise be too costly for an individual farmer or member. Cooperative members can choose to invest together in storage facilities, processing equipment, transportation, and more depending on the collective needs of the membership. Additionally, the cooperative may also combine sales efforts through a shared online sales and inventory tracking system, providing an advantage in the marketplace and cost savings for each member.

**Philanthropy:** One study of cooperatives in the twenty-first century has noted that "the future of sustainable food systems and healthy communities often depends on innovative ideas that are implemented by courageous activists."<sup>2</sup> Cooperatives often fulfill this role of courageous activist. Their presence in diverse communities proves their contributions to social justice and broader recognition of small-scale agriculture.

As cooperatives are generally composed of people who strive for community growth and advancement, they often engage in philanthropic activities to bolster their community impact. These activities include: providing resources to benefit the community and local agriculture, campaigning to raise donations for local organizations, and offering free educational and social activities.

## THE IMPORTANCE OF COOPERATIVES IN THE LOCAL FOOD SUPPLY CHAIN

As the local foods movement has gained momentum, local food cooperatives have become increasingly vital to linking farmers to the local supply chain. The value chain for a cooperative consists of many layers between the producer and final consumer.

- **Producer:** creates the needed product
- **Customers/Market:** people/entities with needs
- **Products/Services:** meets a need
- **Transportation:** moves the product to those who need it
- **Sales:** exchange of value

A cooperative's benefits to local food producers are maintaining or increasing market access, reducing risk, and generating more sales. Its strategies would allow producers to access pricing and marketing opportunities that otherwise may not have been available. Producers may not be aware of various marketing opportunities. Even if they are aware, they may not have access to them because of size requirements or high costs associated with these opportunities.

Cooperatives provide an opportunity for effective coordination that improves marketing system performance by unifying and exerting power to raise total returns to agricultural producers. System rewards from improved coordination have been most visible through efforts of farm input cooperatives at the regional and inter-regional levels in the plant food, crop protectant, petroleum, farm credit, and energy sectors.

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<sup>2</sup> Agricultural Cooperatives in the 21st Century: The Progression Towards Local and Regional Food Systems in the United States, 2015, Sara Servin



## TYPES OF COOPERATIVES

Many different types of cooperatives exist. Structurally, cooperatives may vary as much as the products or services they provide. Below are some short descriptions of selected cooperative structures.

**Marketing Cooperatives:** Marketing cooperatives handle most types of farm products. These cooperatives enable producers to 1) correct market failure where prices are too low, or buyers have left the market, 2) provide a service not available otherwise, 3) gain market power (negotiating power) with larger buyers, 4) spread risks and costs, and 5) achieve greater efficiency through operating with larger volumes of product, and 5) meet the demands of buyers.<sup>3</sup> This classification of agricultural cooperatives is the largest segment by sales.

**Niche-Market Cooperatives:** Some local cooperatives seek to serve a specialized clientele as a subset of marketing cooperatives. These cooperatives do not strive to become large because their smaller customer base wants specialized products or services. While some of these cooperatives may be very successful, the opportunities they represent and their overall impact are both limited.

**Marketing Agencies-in-Common (MACs):** MACs are a strategic alliance among marketing cooperatives that join to market under a standard agreement. MACs serve as marketing agents for their members to achieve economies of size in marketing their like or complementary products. These cooperatives also share the high costs of developing brand names and provide a way to acquire and sell nonmember products when expanding product lines. The agency will usually have exclusive rights to sell members' products in some or all markets.

**Supply Cooperatives:** The largest number of agricultural cooperatives by type. These cooperatives derive most of their business volume from selling production supplies,

<sup>3</sup> United States Department of Agriculture Rural Business—Cooperative Service Cooperative Understanding Cooperatives: Agricultural Marketing Cooperatives Cooperative Information Report 45, Section 15

<sup>4</sup>United States Department of Agriculture Rural Business—Cooperative Service Cooperative Information Report 60

machinery and equipment, and building materials. Many also handle farm, ranch, and home items, such as heating oil, lawn and garden supplies and equipment, and food. Through volume buying discounts, these cooperatives seek to pass along savings to members and customers.

**Service Cooperatives:** The smallest of all agricultural cooperative types by number. Service cooperatives provide specialized services related to the business operations of farmers, ranchers, or cooperatives, such as trucking, storing, and drying. Cooperatives that provide these services to their members offer a way for producers to become more productive by lowering their costs.

**Joint Ventures:** Joint Ventures exist across all classification types and offer another alternative coordination among cooperatives. A cooperative formed to address a common business problem for a limited time serves as a joint venture. Joint ventures may be Limited Liability Companies (LLC), partnerships, corporations, cooperatives, unincorporated associations, or merely contractual arrangements.<sup>4</sup> A joint venture that does not meet its objectives may be dissolved without significant disruption to the participants. Joint ventures can be either be short-lived or continue for decades.

**New Generation Cooperative:** A New Generation Cooperative, a complex legal structure rather than a type, is often formed by producers who perceive the best opportunity for continued economic success hinges on their ability to retain more of the value-added dollars generated from their production. This type of cooperative is not legal in all states. Distinguishing features include:

- Limited and defined membership
- Delivery rights and obligations with specified quantity and quality

- Substantial up-front producer equity
- Tradable equity shares that can fluctuate in value
- The right to deliver a product to the cooperative is linked to the legal responsibility of the producer to provide that product, accomplished through a stock purchase and legally binding marketing agreements.

New Generation Cooperatives typically involve a significant up-front producer investment instead of equity retained over time in traditional cooperatives. Producers provide up-front investment to capitalize the business through the purchase of delivery rights, ensuring the cooperative's supply. In return, producers receive compensation based on contracts entered into by the cooperative on their behalf.

This particular form of operation requires complex legal decisions in the organizational phase. Satisfactorily resolving these issues can be time-consuming, and the needed legal counsel can be costly. Because the new generation cooperative requires stock, businesses formed under this structure require oversight by state regulatory boards at a minimum, and in some cases, by the federal Security and Exchange Commission (SEC). However, some New Generation Cooperatives have organized under the Internal Revenue Service 521 code, allowing limited exemption from SEC regulations.<sup>5</sup> In many cases, more than one class of stock is issued for reasons of functionality.



<sup>5</sup> Income Tax Treatment of Cooperatives: Internal Revenue Code Section 521, Cooperative Information Report 44, Part 4, 2005 Edition, Donald A. Frederick



## CHAPTER 2

# CHALLENGES FACED BY COOPERATIVES

Although many cooperatives experience success with their business model, they may still face some challenges as they continue to grow. The industry's past and recent growth demonstrates a robust unmet demand for local food while also presenting obstacles in increasing sales to meet that demand. Two main barriers can affect a business's ability to increase sales: producer growth and customer base. Other issues faced by cooperatives are incentives and communication.

**Producer Growth:** A significant factor in a cooperative's ability to increase sales is its ability to increase the available product supply. Often, cooperatives face the challenge of building a network of producers that can supply the quality produce consumer's demand. One of the drawbacks to a cooperative's supply is that it is limited to only what is grown and produced locally. Increasing the number of producers in this network may become problematic because, in order to remain local, cooperative may be limited to producers within a 400-mile radius (per the USDA definition of local). Some cooperatives may be more geographically limited as product hauling costs increase for farms further away. Also, as more producers join the cooperative, the issue of competition amongst cooperative members may arise.

Season extension is another barrier that many cooperatives face when trying to grow supply. No matter the cooperative's location, producers are subject to seasonality and the possibility of damaging weather resulting in crop losses.

**Customer Growth:** Along with an increase in a cooperative's network of producers, it will also need to increase its customer base to facilitate growth.

A cooperative's strategy for expanding its customer base should involve making changes or additions to meet consumer needs. This strategy may involve making infrastructure and procedure changes to give consumers more control, variety, and choice.

**Cooperative incentive structures:** Cooperatives can also offer incentive programs to benefit all of their member classes. These incentive structures are an essential part of maintaining interest and involvement with the cooperative. For example, supply and service cooperatives can tremendously impact their consumer members by returning a percentage of food dollars spent. And a producer-member cooperative that continues to increase profits can increase the income distributed to its members. The final stakeholder class, cooperative workers, benefit from the cooperative by receiving a paycheck and employment benefits.

**Cooperative communications:** Enabling information flow and sharing with the different stakeholder classes is vital in keeping each class happy. A cooperative should find the best communication method to fit its needs. One example is an annual meeting between members, including consumers, producers, and workers. This event can allow consumers to meet farmers and producers and continue developing working relationships.

A newsletter or other periodic correspondence is another way the cooperative can maintain open communication channels with members. It can provide general information about happenings within the cooperative and updates on products and farmers.





## CHAPTER 3

# COOPERATIVES AND COMPLIANCE WITH FOOD SAFETY REGULATIONS

More recently, cooperatives are playing a role in helping farmers with food safety regulations such as Good Agricultural Practices (GAP), Good Manufacturing Practices (GMPs), Hazard Analysis Critical Control Point (HACCP), and other traceability concerns. A cooperative should proactively consider its approach to food safety, both from a market entry and a liability perspective.

### GROUP OR HARMONIZED GAP

Cooperatives can use Group GAP to certify all of their farmer-members without the need for separate certifications, saving time and money. The producers in the cooperative are audited as a group by the USDA. The cooperative focuses on training farmers, performing individual farm audits, and building a culture of safe food handling. More information on Harmonized GAP can be found on the USDA AMS website: [ams.usda.gov/services/auditing/gap-ghp/harmonized](https://ams.usda.gov/services/auditing/gap-ghp/harmonized).

### GOOD MANUFACTURING PRACTICES

Good Manufacturing Practices (GMP) has two meanings when used in a food processing facility. The first refers to actual federal code sections of GMPs. The second is a set of operating procedures based upon these codes. The existing codes provide a basis for federal and state food processing regulations to guide facility construction, sanitation, personal hygiene, safe food handling practices, production and processing controls, and equipment and utensil selection.

While these GMPs are relatively generic, the regulations provide an excellent overview of most facets of sanitary facility operation. Once understood, a facility operator can use these codes to develop GMPs for their facility. A typical GMP program consists of several parts, each having a written set of policies and checklists.

A written GMP program should also include sanitation, pest control policies, and documentation. The sanitation program should consist of information about the cleaning chemicals used in the plant, how effectively they are handled and stored, and how they maintain the Material Safety Data Sheets (MSDS). Additionally, the sanitation program includes detailed cleaning schedules and records of how cleanings are conducted, monitored, and recorded.

A pest control program co-developed with a professional pest control operator will help with recordkeeping, making facility recommendations, excluding pests, and reducing harborage areas.

The GMP plan should include a section on "Production and Process Controls" that addresses the methods of preventing contamination, processing time, temperature controls, and other critical factors. The firm must have a means of tracking each batch of products in case a recall is necessary.

## HAZARD ANALYSIS CRITICAL CONTROL POINT (HACCP)

HACCP is mandatory for all inspected meat and poultry processing plants as well as juice plants. In other industries, HACCP may be voluntary.

As defined by the USDA Food Safety and Inspection Service (FSIS), Hazard Analysis Critical Control Point (HACCP) is a systematic, scientific approach to process control. It is designed to prevent food safety problems by assuring that controls are applied at any point in a food production system where hazardous or critical situations could occur. Hazards include biological, chemical, or physical contamination of food products. First, a HACCP program identifies the steps within a food production process that contain the greatest hazards. Using scientifically validated steps, HACCP seeks to reduce these hazards. Finally, the HACCP program implements a plan to monitor, measure, and document each of these steps.

It is essential to recognize that a HACCP plan only works if an effective sanitation program (sanitation SOPs or SSOPs) and documented GMPs are in place. A HACCP program does not compensate for poor practices. Instead, it uses solid practices as a basis for a high assurance of food safety. Writing and implementing a HACCP plan involves significant time investment. An approved HACCP plan will need to be completed before the facility begins operations.

## PERISHABLE AGRICULTURAL COMMODITIES ACT (PACA)

The USDA only requires a PACA license for those operating in the produce industry. Still, states and other local governments may require additional licensing. Even if the business does not directly handle the produce but still acts as a broker between the buyer and seller, the company must have a PACA license.

According to the Agricultural Marketing Service, "PACA facilitates fair trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce."<sup>6</sup> The PACA program's primary purpose is to help ensure fresh and frozen fruit and vegetable dealers receive product shipments and customer payments.

## TRACEABILITY AND THE BIOTERRORISM ACT (BTA)

The federal Bioterrorism Act (BTA) is driving significant changes in food regulation. This federal law mandates rules regarding recordkeeping and product traceability. Farmers selling products through retailers or wholesale distributors must trace ingredients one step backward in the food supply chain and tie those ingredients to finished products one step forward in the food supply chain. The FDA has published a document that summarizes the recordkeeping and traceability requirements at [fda.gov](http://fda.gov).



<sup>6</sup> AMS (2012). "Fair Trading Regulations." USDA [ams.usda.gov/AMSV1.0/ams.fetchTemplateData.do?template=TemplateN&page=PACAFrequentlyAskedQuestions](https://ams.usda.gov/AMSV1.0/ams.fetchTemplateData.do?template=TemplateN&page=PACAFrequentlyAskedQuestions)



## CHAPTER 4

# CASE STUDY EXAMPLES OF COOPERATIVES

### CASE STUDY: SANDHILLS FARM TO TABLE COOPERATIVE

#### BACKGROUND

Sandhills Farm to Table in Southern Pines, N.C., is a multi-farm Community Supported Agriculture venture (CSA), organized in late 2009 as a multi-stakeholder cooperative. This cooperative allows all stakeholders to control various functions of the organization and receive benefits. This level of participation is helpful in that it addresses the needs of each owner-class as customers, workers, and producers are all involved in the cooperative's success.

#### GOALS

Founder Fenton Wilkinson wanted to create an entity that would meet the food demands of the local community with locally produced food while benefitting producers, consumers, and the workers themselves. Another goal of the cooperative was to strengthen the community by connecting the people buying the food to the people producing it. Sandhills has accomplished these goals, stimulating consumer interest in local products, helping farmers expand and diversify production and marketing, and bringing producers and consumers together.

#### COMMUNITY IMPACT

Sandhills' multi-stakeholder model has inspired several other rural cooperatives in North Carolina. An article in Rural Development Magazine has recognized its unique contributions. After only two years of operations, Sandhills has proved to be hugely successful. Sandhills Farm has improved the community by providing fresh local food to more than 1600 members, and donating over \$30,000 to local schools and non-profit organizations. In addition, the cooperative has had a tremendous impact on its 35 producer-members by paying back more than 70% of the retail food dollars received.

Additionally, Sandhills promotes community building by using gathering sites rather than pick-up locations, creating an environment where neighbors and community members can get to know each other. The CSA continues to innovate and expand its community impact by branching into areas not considered traditional cooperative territory. For example, in 2011 Sandhills began offering community enrichment classes through the cooperative.

## CASE STUDY: FIFTH SEASON COOPERATIVE

### BACKGROUND

Based in Viroqua, Wisconsin, Fifth Season Cooperative was founded in 2010 and began operating in 2011. This business is classified as a hybrid food hub. It covers the whole local foods infrastructure from producer to end consumer. A significant portion of their operations center on their work with farmers and producers, from food safety to distribution.

### GOALS

According to their website, Fifth Season's mission is "to produce, process and market healthy, local foods in our region by supporting the values of environmental, social and economic fairness for all."<sup>7</sup>

### COMMUNITY IMPACT

Fifth Season is unique in that it has taken advantage of season extension. Perishable items such as dairy and meat are sourced from dairy and meat cooperative members and brokered to members immediately, saving the warehouse on storage cost and freeing space. The cooperative also sources, stores, and sells shelf-stable items such as coffee, vegetables, and pasta from local producers.

Outreach and recruitment strategies feature Fifth Season's unique system of membership classes which includes Producers, Producer Groups, Processors, Distributors, Buyers, and Workers. Interests of the groups are well represented thanks to the emphasis on farmer and producer membership within the cooperative.

The cooperative also helps producers meet quality and safety challenges by providing GAP and HACCP training and independent audits. Information from these inspections is used to compile an overall checklist for the cooperative's producers, helping them regulate their safety protocols and adhere to a consistent set of guidelines.

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<sup>7</sup>[fifthseasoncoop.com](http://fifthseasoncoop.com)

## CASE STUDY: WEAVER STREET MARKET

### BACKGROUND

Weaver Street Market was formed in 1987 and has successfully operated under a hybrid model ever since. The cooperative operates out of three market locations, serving over 18,000 households and 200 employee-owners. Functioning as a community gathering place and a food store, Weaver Street strives to make its sites a vibrant part of the surrounding communities through frequent events and store specials.

### GOALS

In 2012, Weaver Street's Board of Directors agreed on four primary goals for the cooperative:

1. Make healthy eating accessible, tasty, and fun
2. Drive the growth of local and sustainable foods
3. Invigorate downtowns
4. Use net-zero energy, create zero waste, and promote responsible packaging<sup>8</sup>

### COMMUNITY IMPACT

Weaver Street Market's website highlights its effect on the local community by pointing to three key aspects of the relationship between customers and owners: shared economics, community, and knowledge.

Economically, consumers pay fair prices for trusted products, and employees receive good pay, benefits, and an opportunity to make a difference in their community. Weaver Street also focuses on the community by reinstating the local market as a social gathering place rather than simply a store. These store locations provide a space for patrons to connect, share meals, and attend events. Weaver Street Market relies on the knowledge shared between cooperative members and community members and welcomes ideas from the public.

Weaver Street also has a broader scope of influence in the community, partnering with outside organizations to benefit the community. In 2015, Weaver Street Market campaigned for donations of food, supplies, and volunteer service for four hunger relief organizations in the area.

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<sup>8</sup> [weaverstreetmarket.coop](http://weaverstreetmarket.coop)

## CASE STUDY: DIGGER'S MIRTH COLLECTIVE FARM

### BACKGROUND

Digger's Mirth is a worker-owned cooperative founded in 1992 in Burlington, Vermont. It currently has five members who collectively farm 15 acres. Each farmer-owner takes part in operations and has an equal voice in the decision-making process. Produce grown on the farm is organic and sold locally to grocery stores, restaurants, and food distributors.

### GOALS

Digger's Mirth is legally organized as an LLC. However, it operates cooperatively through shared profits based on the commitment, or "sweat equity," invested by each member. The goal of the collective is to provide members with land access, a sense of community, and work-life balance. The collective maintains a dedication to providing a livable wage to all members, no matter their seniority. Everyone shares in the workload of the farm, often rotating out responsibilities.

### COMMUNITY IMPACT

Digger's Mirth strives to impact the community by providing access to organically and locally grown produce and employment and farming opportunities. As a worker-based cooperative structure, the farm's profits are divided amongst members based on the number of hours worked at the farm. Through this structure, each member makes the same hourly wage, regardless of how long they have been with the collective.

Additionally, more farmers can access land that would otherwise not be possible by themselves through the cooperative and collaborative structure. The initial investment required to join the farm is \$1,500. The collective provides access to equipment and infrastructure, reducing the costly upfront investment for most farmers.



## CHAPTER 5

# STARTING A COOPERATIVE

While there is no strict definition of a cooperative, it is generally an organization owned and democratically controlled by the people who use its services and whose benefits are derived and distributed equitably based on use. The user-owners are called members.

USDA lists three principles as being widely recognized and practiced for cooperatives<sup>9</sup>:

**The User-Benefits Principle:** Members unite in a cooperative to get otherwise unavailable services - to get quality supplies at the right time, to have access to markets, or for other mutually beneficial reasons.

**The User-Owner Principle:** The people who use a cooperative own it. As they own the assets, the members must provide financing to keep the cooperative in business and permit it to grow.

**The User-Control Principle:** As owners, a cooperative's members control its activities. This control is exercised through voting at annual and other membership meetings and indirectly through those members elected to the board of directors. Members, in most instances, have one vote regardless of the amount of equity they own or how much they patronize the organization.

A cooperative is organized and incorporated under applicable state laws. For an organization to qualify as a cooperative, the following items must be included.

### STARTING A CO-OP RESOURCES

#### STEPS TO STARTING A COOPERATIVE

[youtube.com/watch?v=wZaumnlt29k&feature=emb\\_title](https://www.youtube.com/watch?v=wZaumnlt29k&feature=emb_title)

#### HOW TO START A COOPERATIVE

[rd.usda.gov/files/CIR45-14.pdf](https://www.rd.usda.gov/files/CIR45-14.pdf)

#### DECIDING HOW TO STRUCTURE YOUR BUSINESS

[content.ces.ncsu.edu/deciding-how-to-structure-your-business](https://content.ces.ncsu.edu/deciding-how-to-structure-your-business)

1. Management is controlled by a board of directors who the members elect. Most of the directors must be members of the cooperative. Thus, the leaders are regular users of the firm's products or services.
2. Equity comes from the members rather than outside investors. It is obtained by direct contributions through membership fees or sale of stock, by agreement with members to withhold a portion of net income based on patronage, or through retention of a portion of sales proceeds for each unit of product marketed. If a cooperative fails, the liability of each member is limited to the amount they have invested.
3. Earnings/losses on business conducted on a cooperative basis, often called margins, are

<sup>9</sup>Wadsworth, J. & Eversul, E. (2005). Co-ops 101 An Introduction to Cooperatives. United States Department of Agriculture Cooperative Information Report 55.



allocated to the members on the basis of the use they made of the cooperative during the year, not on the basis of equity held. The allocations may be distributed in cash or retained as additional equity. Members usually receive a combination of cash and equity.

Typically, cooperatives operate on a one member, one vote system. Each cooperative member has equal voting power within the organization that is not contingent on how much they utilize the cooperative or their investment made into the cooperative. Some states may mandate that organizations use a one-member, one-vote system to organize as a cooperative formally.

If legally allowed, cooperatives may elect to use a proportional voting method. This method provides greater voting power to members based on how much they use the cooperative or the level of investment they have made into the organization.<sup>10</sup>

Some cooperatives may be governed solely by their members if they are small enough and their members are willing to be actively engaged in the decision-making processes. Otherwise, many cooperatives elect a board of directors to oversee all decision-making and the fiscal responsibilities of the organization. Cooperative members vote to elect members of the board who will make decisions in the group's best interest overall. The responsibilities and limits of the board are laid out in the cooperative's bylaws.

## STEPS TO TAKE WHEN STARTING A COOPERATIVE

The following is a basic outline of the steps for starting a cooperative. If you need additional information, it is readily available. Check out the resources on page 17 for multiple links to the US Department of Agriculture (USDA) and other industry experts.

### STEP 1: EXPLORE THE COOPERATIVE IDEA

Starting a Cooperative is like starting any business—it all begins with an idea and a plan. Planning and exploring your idea are crucial for determining the need for a cooperative, who will be involved, and what the cooperative will provide.

Typical questions to ask during this process include:

- What is the business concept?
- Is there an economic need for a cooperative?
- Is a cooperative the best structure for the business to address the need?
- What would be the cooperative's mission and values?
- Who will be involved and to what capacity?

<sup>10</sup>Reynolds, B.; Gray, T.; & Kraenzle, C. (1997). Voting and Representation Systems in Agricultural Cooperatives. United States Department of Agriculture RBS Research Report 156.



During this time, you may want to hold exploratory meetings or surveys of potential member-users. A cooperative feasibility study may also be needed at this stage.

## STEP 2: PRELIMINARY BUSINESS PLANNING

Once the initial understanding of the business is established, groups typically conduct a business plan to lay out the details of how the business will operate. This includes asking the following questions:

- What specific products and/or services will you provide?
- What are your target markets, and how will you reach them?
- What are the general operations of the business?
- Who is your target membership, and are there enough in the area to support a cooperative?
- What are your membership requirements/ needs?
- What resources do you need for the startup?
- How will the cooperative be funded over time?

## STEP 3: PREPARE AND FILE YOUR BUSINESS STRUCTURE DOCUMENTS

The final step in forming the cooperative is to develop any legal paperwork needed, such as bylaws and articles of organization. These documents will be needed to file for legal business status with the Secretary of State. Typically, any business structure can operate cooperatively, but most cooperatives are corporations or limited liability corporations (LLC). Cooperatives can be formed by individuals or transitioned from an existing business, such as an LLC.

## COOPERATIVE STRUCTURE CONSIDERATIONS

**Cooperative taxation:** Earnings from businesses with members are taxed once, either as the corporation's income or as income of the members when allocated to them. Most rules governing cooperative income tax treatment are found in subchapter T of the Internal Revenue Code, sections 1381-1388. Subchapter T recognizes that the objective of business conducted on a cooperative basis is not to generate earnings for the cooperative but to increase the income of the members. Thus, net margins on business with or for patrons are subject to Federal income tax only once, at either the cooperative or the user level, but not both.

Only this patronage-sourced income is eligible for single tax treatment. With certain exceptions, income from non-patronage sources is subject to tax at the cooperative level when earned and at the recipient level when paid out to members or others. This single tax treatment is not limited to farmer cooperatives. With certain exceptions, any business that chooses to "operate on a cooperative basis" is eligible for tax treatment under Subchapter T.

**Cooperative existence and membership:** A cooperative usually has perpetual existence. Members typically join or resign without disrupting ongoing operations.

**Cooperative legal regulations:** State and federal regulations dictate how a business qualifies as a cooperative. Some of these regulations are discussed below. The following is adapted from the South Carolina Code of Laws, which provides guidance on the requirements for organizing a cooperative and Limited Liability Company in the state. [scstatehouse.gov/code/t33c045.php](https://www.scstatehouse.gov/code/t33c045.php)

## FORMING A COOPERATIVE IN SOUTH CAROLINA

A business or organization cannot use the term "cooperative" as part of their legal name unless it is formed to comply with the state's code of cooperatives. The following provides a brief overview of the requirements of forming a cooperative in South Carolina as stated in the South Carolina Code of Laws.

In the state of South Carolina, you can form a Cooperative with five or more persons who are state residents. Cooperatives may be formed for agricultural, dairy, mercantile, mining, mechanical, or manufacturing businesses. The members of the potential cooperative would need to submit a signed petition to the Secretary of State with the following information:

- The petitioners' names and residences (the founding members of the cooperative)
- The proposed corporation's name, which may include the word "cooperative."
- The proposed principal place of business
- The type or general nature of the business the cooperative seeks to engage in
- The association's amount of capital stock (minimum of \$100) and how and when it is payable
- The number of shares of capital stock and their value
- All other matters which would be desirable to set forth.

The Secretary of State will then issue a commission constituting the applicants as a board of incorporators and allow them to open books of subscription to the proposed association's capital stock once the petition has been filed and the filing fee paid.

In addition to the previously stated requirements of the petition, there are a number of limitations and requirements for a cooperative's shares and subscriptions. Cooperatives may not be formed with capital stock less than \$100, and a single common share value should not be less than \$5. Additionally, no stockholder may own shares that equal greater than one-fifth of the association's capital stock. Each stockholder is also entitled to no more than one vote on any subject in the management of the cooperative. (Note: Telephone cooperatives may cast votes proportionally equal to the number of shares owned.)

Cooperative boards of directors in South Carolina must have at least five members but can have not more than nine. The board is responsible for managing the cooperative's affairs, and the bylaws must lay out the term of office for board members. However, a majority of stockholders may remove any director or officer with the cause before their term is up.

For full details, see South Carolina Code of Laws 33-45-10 at [scstatehouse.gov/code/t33c045.php](http://scstatehouse.gov/code/t33c045.php).

The South Carolina Secretary of State: [sos.sc.gov](http://sos.sc.gov)



## APPENDIX

# COOPERATIVE DEVELOPMENT RESOURCE LINKS

### PRESENTATIONS AND PUBLICATIONS

- USDA Publications for Cooperatives  
[rd.usda.gov/resources/publications-for-cooperatives](https://rd.usda.gov/resources/publications-for-cooperatives)
- Steps to Starting a Cooperative  
[youtube.com/watch?v=wZaumnl29k&feature=emb\\_title](https://youtube.com/watch?v=wZaumnl29k&feature=emb_title)
- Co-ops 101  
[rd.usda.gov/files/cir55.pdf](https://rd.usda.gov/files/cir55.pdf)
- Co-Op Essentials  
[rd.usda.gov/files/publications/CIR%2011%20%20Co-op%20Essentials.pdf](https://rd.usda.gov/files/publications/CIR%2011%20%20Co-op%20Essentials.pdf)
- Deciding How to Structure Your Business  
[content.ces.ncsu.edu/deciding-how-to-structure-your-business](https://content.ces.ncsu.edu/deciding-how-to-structure-your-business)
- Cooperative Farming  
[greenhorns.org/wp-content/uploads/2018/07/Greenhorns\\_Cooperative\\_Farming\\_Guidebook.pdf](https://greenhorns.org/wp-content/uploads/2018/07/Greenhorns_Cooperative_Farming_Guidebook.pdf)
- Co-operative Governance Fit to Build Resilience in the Face of Complexity  
[ica.coop/sites/default/files/basic-page-attachments/ica-governance-paper-en-2108946839.pdf](https://ica.coop/sites/default/files/basic-page-attachments/ica-governance-paper-en-2108946839.pdf)
- Multi-stakeholder Cooperative and Consumer Co-ops  
[grocer.coop/articles/multi-stakeholder-cooperatives-and-consumer-co-ops](https://grocer.coop/articles/multi-stakeholder-cooperatives-and-consumer-co-ops)
- Cooperative Equity and Ownership  
[community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-lund.pdf](https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-lund.pdf)
- How to Start a Cooperative  
[rd.usda.gov/files/CIR45-14.pdf](https://rd.usda.gov/files/CIR45-14.pdf)
- Cooperative and Community Development: A Perspective on the Use of Cooperatives in Development  
[tandfonline.com/doi/full/10.1080/10705422.2011.550260](https://tandfonline.com/doi/full/10.1080/10705422.2011.550260)
- Considering Cooperation: A Guide for New Cooperative Development  
[cooperatives.dyson.cornell.edu/pdf/consideringCooperation.pdf](https://cooperatives.dyson.cornell.edu/pdf/consideringCooperation.pdf)
- An Introduction to New Generation Cooperatives  
[extension.psu.edu/an-introduction-to-new-generation-cooperatives](https://extension.psu.edu/an-introduction-to-new-generation-cooperatives)
- Food Hubs: an evolution of the co-op business model  
[matsonconsult.com/wp-content/uploads/2015/09/Evolution-of-Food-Hubs-Rural-Co-op-2.pdf](https://matsonconsult.com/wp-content/uploads/2015/09/Evolution-of-Food-Hubs-Rural-Co-op-2.pdf)

## COOPERATIVE DEVELOPMENT CENTERS AND NETWORKS

- Cooperation Works!  
[cooperationworks.coop](http://cooperationworks.coop)
- USDA Cooperative Services  
[rd.usda.gov/programs-services/all-programs/cooperative-services](http://rd.usda.gov/programs-services/all-programs/cooperative-services)
- UW Center for Cooperatives  
[uwcc.wisc.edu/resources/governance-2/](http://uwcc.wisc.edu/resources/governance-2/)
- Ohio Cooperative Development Center  
[cooperatives.cfaes.ohio-state.edu](http://cooperatives.cfaes.ohio-state.edu)
- Kansas State University Arther Capper Cooperative Center  
[acc.k-state.edu](http://acc.k-state.edu)
- Cooperative Development Services  
[cdsus.coop](http://cdsus.coop)
- Cooperative Development Institute  
[cdi.coop](http://cdi.coop)
- Cooperative Development Foundation  
[cdf.coop](http://cdf.coop)
- Cooperative Grocer Network  
[grocer.coop](http://grocer.coop)
- Federation of Southern Cooperatives  
[federation.coop](http://federation.coop)
- Resident-Owned Communities  
[rocusa.org/whats-a-roc](http://rocusa.org/whats-a-roc)
- National Association of Housing Cooperatives  
[coophousing.org](http://coophousing.org)

- Co-op Canada  
[canada.coop](http://canada.coop)
- National Rural Electric Cooperatives Association  
[electric.coop](http://electric.coop)
- Virginia Foundation for Agriculture, Innovation, and Rural Sustainability  
[vafairs.com](http://vafairs.com)
- South Carolina Center for Cooperative and Enterprise Development  
[clemson.edu/extension/agribusiness/sccced](http://clemson.edu/extension/agribusiness/sccced)

## TECHNICAL ASSISTANCE RESOURCES

- Vital Steps: A Cooperative Feasibility Study Guide  
[rd.usda.gov/files/publications/SR58\\_CooperativeFeasibilityStudyGuide.pdf](http://rd.usda.gov/files/publications/SR58_CooperativeFeasibilityStudyGuide.pdf)
- Sample Policies for Cooperatives  
[resources.uwcc.wisc.edu/Governance/sample\\_policies\\_usda.pdf](http://resources.uwcc.wisc.edu/Governance/sample_policies_usda.pdf)
- Assessing Performance and Needs of Cooperative Boards of Directors  
[resources.uwcc.wisc.edu/Governance/cir58\\_AssessingPerformance.pdf](http://resources.uwcc.wisc.edu/Governance/cir58_AssessingPerformance.pdf)
- Decision-Making in Cooperatives with Diverse Member Interests  
[resources.uwcc.wisc.edu/Governance/DecisionMakingwithDiverseMem.pdf](http://resources.uwcc.wisc.edu/Governance/DecisionMakingwithDiverseMem.pdf)
- Cooperative Finance 101  
[youtube.com/watch?v=vaGOT8B7btA&feature=youtu.be](http://youtube.com/watch?v=vaGOT8B7btA&feature=youtu.be)
- South Carolina SBDC Starting a New Business  
[scsbdc.com/start-a-new-business](http://scsbdc.com/start-a-new-business)



# NOTES

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# THE CENTER FOR COOPERATIVE AND ENTERPRISE DEVELOPMENT



**SERVING RURAL SOUTH CAROLINA**



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