

Orientation to Cooperatives

1 THE COOPERATIVE WAY OF DOING BUSINESS

The cooperative way of doing business exists to combine visionary social ideas with the economic realities of running a business. It is a business voluntarily owned and controlled by the people who use it and is operated solely for the benefit of its owner-owners: people working together for their mutual benefit, achieving goals through cooperation that the individual could not achieve on their own.

Values and Principles all Co-ops have in common:

The International Cooperative Statement:

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative owners believe in the ethical values of honesty, openness, social responsibility, and caring for others.

The Seven Cooperative Principles:

In addition to their common values all co-ops share seven basic principles. They serve as guidelines for how to put ideals and values into practice, distinguishing co-ops from other types of businesses.

1. Open and voluntary ownership:

Co-ops do not limit who may join for any social, political or religious reasons. They are open to all who can make use of the Co-op services and are willing to accept the responsibilities involved. Owners may join, or withdraw whenever they wish, nonetheless, co-ops can and do have ownership requirements – such as fees, an investment, and/or an application process.

2. Owner economic participation:

- Owners, provide money needed to start and operate the business. But regardless of the amount invested by an owner decisions are made democratically.
- To encourage owners to invest in the co-op and to compensate them for the use of their money, co-ops can pay dividends (like interest) to their owners. However, when co-ops do so, the dividend rate must be limited. This restriction prevents people from investing in co-ops just for the speculative purpose of earning a financial return and keeps the co-op in the hands of those who really want to use its services.
- Surplus, or profit, resulting from the operations of the Co-op belongs to the owners, and they control (through the Board of Directors) how it will be distributed. Owners may allocate surplus to reserves (to replace equipment or to expand product line), may choose to use it to support other activities, or may allocate it to owners.
- Surplus allocated to owners is distributed in proportion to the amount of business each owner has conducted with the cooperative. In this way, any return of surplus to owners is handled equitably – to avoid one owner gaining at the expense of others. Distributions are

called patronage rebates. For example, REI (Recreational Equipment, Inc.) is a co-op that makes patronage refunds to its owners, typically about 9% per year. So an owner of REI who purchases \$1000 worth of goods in a year will receive a patronage refund of \$90, while an owner whose purchases total \$100 will receive a patronage refund of \$9.

Co-ops apply this principle in a wide variety of ways to fit their own circumstances and operations. But in all cases, the board of directors has the authority to set specific policies (such as to determine the amount of capital required or the amount of patronage refund to distribute) that are in the best interests of both the co-op and its owners.

In total, this principle describes unique ways that co-ops handle money and reinforces the idea that it is a co-op's purpose to provide mutual benefit and to distribute the proceeds of the business equitably to its owners.

3. Democratic owner control:

All owners of a co-op are equal co-owners in the cooperative business. Each owner has equal voting and decision-making power in the governance of the business on the basis of one vote per owner. In contrast, owners of more traditional corporations have one vote per share (so that the number of votes stockholders have depends on the amount of money they have invested). Co-ops offer a more democratically based system.

4. Autonomy and independence:

Cooperatives are independent, self-help organizations controlled by their owners. If they enter into agreements with other organizations or raise money from outside sources, they do so only on terms that ensure democratic control by their owners. This principle protects co-ops from being controlled by outside groups. Owners must clearly retain decision-making control of their cooperatives so that co-ops can follow owners' wishes.

5. Education, training, and information:

The role of a co-op owner is quite different from the role of a customer at a traditional business. A co-op owner is simultaneously the co-op's customer, owner, and decision maker. Educating owners and leaders about the principles, practices, and structure of the cooperative business is vital. No cooperation without cooperators! Co-op education programs provide owners with information about co-ops and being a co-op owner (voting, ownership rights, governance systems, etc.), as well as about products and services of the co-op (nutrition, food production, consumer value, etc.). Finally, co-ops must also educate the general public, young people and opinion leaders so they understand the nature and benefits of cooperation.

6. Cooperation among cooperatives:

To bring the theory of working together full circle, co-ops recognize the vital importance of working together with other co-ops – locally, regionally, nationally, and even with international co-op groups. Through these efforts, co-ops try to help each other – to strengthen their economic positions and to contribute to the co-op movement. This principle of “cooperation among co-ops” extends the idea of working together to the organizational level. When co-ops work together, they can often accomplish more for the benefit of their owners.

7. Concern for community:

Every co-op operates in a community that extends beyond its own sphere of operation and in which its owners live. The co-op's actions affect that larger community. While owner needs are the primary concern, cooperatives also work for sustainable development of their communities in positive ways. Co-ops have an obligation to contribute to developing strong and sustainable economic solutions for community needs, not just provide charitable contributions to local groups.

2 UNIQUE FEATURES OF A COOPERATIVE BUSINESS

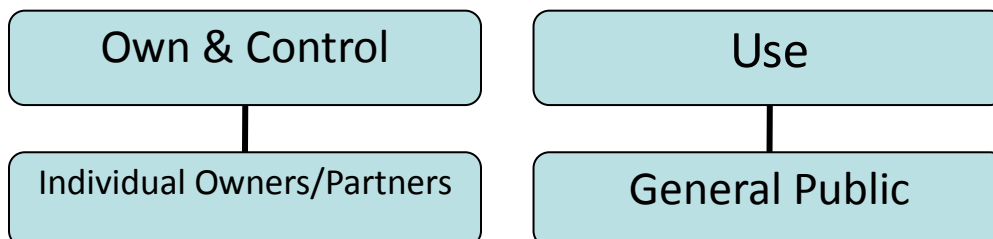
- A Cooperative is a business, usually incorporated, that sells goods & services. It is not a charitable organization, a club or community organization.
- A cooperative exists primarily for the benefits of its owners.
- In a cooperative, owners democratically control the direction of the business. In most co-ops each owner gets one vote. Owners elect a board of directors to monitor the business, set goals, and hire management to operate their business. Ultimately, the board is accountable to the owners for its decisions.
- In private or stockholder-owned business, individuals invest to earn a financial return. In a co-op, individuals are motivated by a shared need for certain products or services, owners become co-owners of the business primarily so that their needs can be met.

Like any business, a co-op provides goods and services to its customers. From its physical appearance and operations, a co-op may seem no different from any other business. However, the differences between co-ops and other businesses go beyond appearance. The real differences lies in who owns, controls, and uses the business – and in who benefits from the business's services and accomplishments!

Who owns, controls and uses:

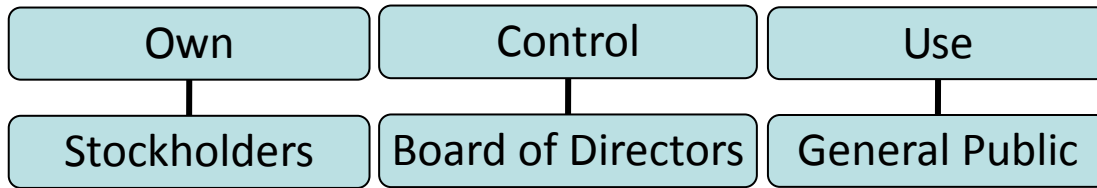
Sole Proprietorship/Partnership:

Examples include restaurants, bakeries, and bookstores – mostly locally owned, small businesses. These businesses return investment to its owners.



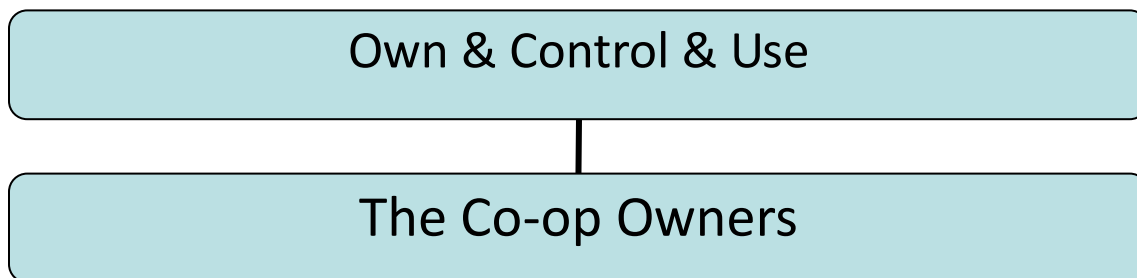
Investor-Owned Corporations:

Examples include Safeway, Whole Foods, Starbucks, Microsoft and GM. This is a business whose stock is traded publicly by any number of investors.



Cooperative:

This is a member-owned, member-controlled business that operates for the mutual benefit of all owners. Examples include rural electric co-ops, food co-ops, and credit unions. The cooperative form of business is one that brings the owners, controllers, and users of a business together in one group.



Special tax handling:

As we have seen, co-ops have a unique way of handling their net surplus, or profit – they give it back to their owners in proportion to use. In most food co-ops, owners get a rebate from the co-op based on how much they spend on groceries each year. In other cases, owners get a discount on their purchases, or they get owner-only prices.

Like most businesses, cooperatives pay federal and state taxes based on their profits. Special tax laws apply to cooperatives. When a co-op pays profits back to its owners in the form of a patronage refund, that profit is not considered taxable income to the co-op. The co-op is simply giving a rebate to owners, the surplus is never considered taxable income and the co-op does not pay taxes on that amount. These tax savings can be used by the co-op to benefit its owners further. If the co-op does not declare a patronage rebate, it pays taxes on these profits like any other business.

3 THE ROLE OF OWNERS IN A COOPERATIVE

All co-ops operate for the benefits of their owners. But the returns are not just monetary. Owners make sure that their co-op provides them with the quality of products they want at a fair price. They control the business through their elected board of directors and through participation in their co-op. In this way they extend democratic practices into their economic lives.

Each co-op offers its owners different benefits. At most food co-ops these benefits can include special discounts, newsletters, and classes. Owners can also participate in cooperative governance by exercising their right to vote.

Becoming an owner of a co-op is not the same as joining a club, neighborhood association, or other social group. Becoming an owner of a co-op means accepting the rights and responsibilities of a business owner. For co-ops to succeed, owners need to understand this fact and take their rights and responsibilities seriously.

Owner Rights:

- Elect directors to represent owner's interests
- Vote in ownership referenda
- Adopt or change bylaws
- Require that the co-op follow its bylaws
- Require accurate, timely reports on the co-ops operations and financial performance, and review these reports
- Hold the co-op accountable for legal and fiscal actions

Owner Responsibilities:

- Patronize the business
- Provide capital by investing in the co-op
- Promote the co-op to others
- Understand the needs of businesses and those of their co-op
- Keep informed, know what's going on at the co-op
- Participate in co-op activities – elections, meetings, surveys, events.
- Understand co-op bylaws and principles
- Attend co-op meetings, raise concerns

Co-ops are about more than just ownership. They also put owners in control of a business they use. Participation by owners in the decisions of a co-op is vital to its success.

Owners can participate in many different ways. One of the most important ways an owner can participate is to use the co-op – it doesn't make any sense for someone to join a food co-op and then shop primarily at another store!

Owners need to exercise control of their business by voting in co-op elections. Ownership and control are valuable aspects of a cooperative business that help distinguish co-ops from their competitors.

4 CO-OP GOVERNANCE

The most significant aspect of any co-op governance system is the election of the board of directors. Owners elect directors to oversee the business on their behalf and to make sure the co-op is well managed. Owners also vote on change in bylaws. Any qualified owner may run for the co-op's board of directors. Another part of governance is to keep owners well informed via a regular owner newsletter, more and more co-ops are using electronic newsletters or webpages to inform, educate, and communicate with their owners.

A board of directors has three main responsibilities:

- To set long-range goals and sound strategic plan for the co-ops future. The board is involved in planning the co-op's future direction through the writing and expression of the Ends policies and approving the strategic plan. The directors work together with the General Manager keeping the owner's needs and perspectives in mind. Directors also approve operating plans and performance goals which are presented to the board by the General Manager.
- To ensure sound management of the co-op's resources. It is the board's responsibility to make sure that the co-op's financial and human resources are managed properly and prudently. To do this, the board regularly reviews the policies of the organization and key indicators of the co-op's operations (such as debt to equity ratio, the current ratio, and quick ratio) and other reports. The board is also responsible for evaluating the General Manager's performance. The General Manager is the Board's key employee.
- To act as trustees on behalf of the owners. It is the responsibility of the board to make sure that all applicable laws are followed by the cooperative and that the owner's investment is managed prudently and effectively. Directors monitor the co-op's financial status. A board may hire an outside auditor (CPA) to review financial records annually. Also, the directors report to the owners on the co-op's financial health at the annual meeting. As trustees of all owners the board ensures that all bylaws, policies and other regulations are followed.

A board of directors fulfills these responsibilities with four key activities:

- Hiring, supervising, and evaluating the co-op's general manager
- Planning for the co-op's future and setting strategic direction
- Approving business plan ,capital and operating budgets, presented by the general manager
- Recruiting and educating new directors to ensure a well-qualified and effective board

All discussions, initiatives and decisions made by the Board of Directors are driven by our Ends:

1. Greater Sense of Community
2. Community owners are better informed about cooperative principles and personal and environmental health.
3. People in our area have access to healthy products.

4. A vibrant local food economy.

5 A NETWORK OF SUPPORT

Consistent with the principle of “cooperation among cooperatives”, a number of national organizations bring co-ops together. Co-ops have a national trade association, the National Cooperative Business Association (www.ncba.coop). The NCBA’s mission is to represent, strengthen, and expand the cooperative form of business and to link NCBA’s owners with cooperative organizations in the U.S. and worldwide. The National Cooperative Bank (www.ncb.coop) was created by NCBA in response to its owners need for access to financing. The NCBA formally represents the United States at the International Co-operative Alliance (www.ica.coop).

Food co-ops in the 1990’s began forming regional co-op grocers associations, (CGA’s) to share resources and strengthen all facets of their operations. In 2004 eight regional CGA’s merged together as the National Cooperative Grocers (NCG). Natural Harvest became a member of NCG in 2014 and participates in many of the programs and services of NCG. As a cooperative for food co-ops NCG offers services; including supply agreements, discounted group rates for business services, the Co-op Deals program for bi-monthly in-store specials and coupons, marketing and training programs. In addition the NCG provides business development assistance to co-ops to support a strong and growing co-op network – through regional networking and store improvement programs, assistance with expansions, audits, and other services. This approach allows co-ops to continue operating with local ownership while gaining some of the advantages of a unified system.

Consumer interface with co-ops nationally can be found at www.strongertogether.coop where you can learn more about how food co-ops come together to create a better world.

6 CHALLENGES AND HOW WE CAN MEET THEM

Today’s consumer food co-ops operate in highly competitive markets. While many co-ops have introduced tremendous innovations to the market – bulk foods, organic products, and a focus on healthy products, to name a few – large chains have taken over markets that were developed by co-ops.

A critical challenge facing today’s consumer co-ops is to maintain ownership support. It’s been proven without a doubt that ownership understanding of a co-op is critical to its success and survival.

Part of attracting new owners, retaining owners, educating customers and staff is to tell the co-op story. With this orientation to co-ops we are hoping to make a start and to get you interested in the co-op business model and why it can make a difference in the world.

Cooperatives provide a system of “economics as if people mattered” – where people can build businesses based on local ownership and control, businesses that empower them rather than create dependence. We are glad to have you on board!

Meeting mutual needs has always been the goal of co-ops. The challenge for co-ops is to keep looking for new ways to use this successful business structure to address owner’s current and future social and economic needs.