



Using Cooperatives in Florida Horticulture

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Overview

- Why consider cooperatives?
- What are cooperatives?
- Types of Cooperatives
- Cooperatives vs. other business forms
- Cooperative specifics (MGT, pros/cons)



Why Discuss Cooperatives?

Florida Historical Highlights: 2007 and Earlier Census Years

All Farms	2007	2002
Farms - number	47,463	44,081
Ave Size of Farm - Acres	195	236
Farms by Size		
1 to 9 acres	12,184	10,267
10 to 49 acres	20,680	18,360
50 to 179 acres	8,543	8,776
180 to 499 acres	3,461	3,684
500 to 999 acres	1,225	1,330
1,000 to 1,999 acres	653	822
2,000 acres or more	717	842



Cooperatives are Businesses:

- ❑ Owned & democratically controlled by the people who use its services or buy their goods
- ❑ Benefits (services received and earnings allocations) to members proportionate to their use, not to their ownership
- ❑ Motivated not by profit, but to meet member needs



Why do Cooperatives Form?

- Marketplace failure
- Need to empower people
- To provide members with goods and services that might not be available otherwise



Types of Cooperatives

- Financial Cooperatives
- Consumer Service Cooperatives
- Business Cooperatives
- Farmer Cooperatives



Financial Cooperatives



















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Consumer Service Cooperatives



































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Business Cooperatives




















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Producer-Serving Cooperatives





































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Seven Cooperative Principles

1. Voluntary and Open Membership
2. Democratic Member Control
3. Member Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation among Cooperatives
7. Concern for Community

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Governance System

- Centralized - Individual members
- Federated - Cooperatives are members
- Mixed – Individual & cooperative members

Source: USDA-Rural Development


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Business Characteristic Comparison

	<u>Individual</u>	<u>Partnership</u>	<u>Corporation</u>	<u>LLC</u>	<u>Co-Ops</u>
Control	Owner	Partners	BOD Shareholder	Members	BOD Member
Capital	Owner	Partners	Selling Shares	Members	Members
Earnings	Owner	Shared By Partners	Dividends	Member Agreement	Members Usage
Taxes	Taxed Once Owner Inc.	Taxed Once Partner Inc.	Taxed Twice	Passed On: Partnership	Taxed Once Co-Op or Ind
Longevity	Tied to Owner	Partners	Perpetual	Perpetual or Agreement	Perpetual

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- ## Sources of Equity
- Direct investments
 - Retained patronage refunds
 - Per-unit capital retains
 - Non-patronage income
- Source: USDA-Rural Development*
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Direct Investment

- Cash purchase of membership certificate, common or preferred stock
- Necessary to capitalize new cooperative
- Non-member investment in non-voting stock

Source: USDA-Rural Development

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Retained Patronage Refunds

- Based on the patron's pro rata share of business during the year
- Returned to the patrons as cash or equity allocations
- Primary method of building capital in established, profitable cooperatives

Source: USDA-Rural Development

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Patronage Refund Example

- ❑ If ABC Cooperative earned \$1000 last year, and
- ❑ ABC Co-op did 8 percent of its business with Ms. Smith, then
- ❑ Ms. Smith is entitled to a patronage refund of \$80 ($\$1,000 \times .08$)

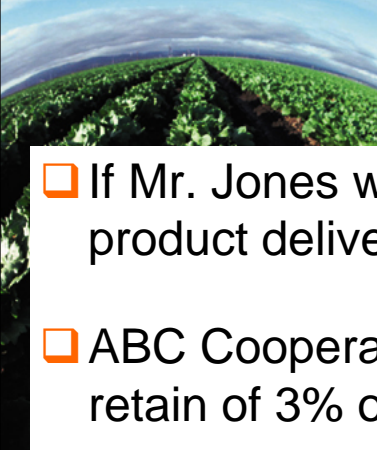
Source: USDA-Rural Development



Per-Unit Capital Retain

- ❑ Portion of Sales proceeds due patrons for product marketed for that patron, but retained to capitalize the cooperative
- ❑ Used by some marketing cooperatives

Source: USDA-Rural Development



Per-Unit Capital Retain Example

- ❑ If Mr. Jones was due \$10,000 for product delivered last year, and
- ❑ ABC Cooperative collected a per-unit retain of 3% of the sales proceeds, then
- ❑ Mr. Jones receives \$9,700 cash and a per-unit retain allocation of \$300 ($\$10,000 \times .03$)

Source: USDA-Rural Development

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Co-op Management

1. Members
 - Exercise control through their elected directors
2. Board of directors
 - Formulate general operating policies and obtain manager
3. Managers
 - Responsible for operating the cooperative

- ❑ Members vs. Patrons

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Benefits of Cooperation

- ❑ Access to quality supplies and services at reasonable cost
- ❑ Increased clout in the marketplace
- ❑ Share in the earnings
- ❑ Local economy enhanced & protected
- ❑ Help solve industry problems
- ❑ Political action

Source: USDA-Rural Development

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Capper-Volstead Act of 1922

- ❑ Ag producers may act together in associations
- ❑ To collectively process, prepare for market, handle, and market
- ❑ Agricultural products they produce

Source: USDA-Rural Development

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Qualification Standards

- Membership limited to agricultural producers
- Operates to benefit member as producers
- One member-one vote *or* 8 percent cap on stock dividends
- Value of products for members must exceed that of nonmember products


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Protected Conduct

- Agreements on prices & terms of sale
- Select the extent of joint marketing (bargaining, selling, processing)
- Cooperation with other cooperatives
- Achieving substantial market share

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Unprotected Conduct


- ❑ Agreements with non-producers
- ❑ Acquisitions of non-cooperative firms
- ❑ Predatory conduct
- ❑ Undue price enhancement

Source: USDA-Rural Development

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Why Cooperatives Fail

- ❑ Poor selection of directors
- ❑ Bypassing the co-op for a small gains
- ❑ Members who fail to take responsibility
- ❑ Members who never ask questions and who let a few persons make policy
- ❑ Members & directors who don't attend meetings
- ❑ Inconsistent membership education

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Source: National Cooperative Business Association 2012 Citra Field Day

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Why Cooperatives Fail cont.

- Not enough money (risk capital)
- Low-cost mgt vs. high-priced mgt
- Cliques/interest groups within the co-op
- Concealing facts. All facts, both good and bad, should be public
- Errors in financial policy
- Errors in educational and social work
- Management errors

 Source: National Cooperative Business Association 2012 Citra Field Day 27



Cooperatives Thrive When...

- Providing goods/services members use.
- Financed by the members
- Using major fixed assets @ 75%+ level
- Members who do the majority of their business with the co-op
- Low administrative & overhead costs
- Individualized and specialized services, particularly in the marketing area

 Source: National Cooperative Business Association 2012 Citra Field Day 28



Cooperatives Thrive When...

- Open communication with members
- Quality management team in place
- Business-oriented directors
- Systematic method of cooperative education
- Aggressively positioning for changes in operations, markets and member needs

 *Source: National Cooperative Business Association* 2012 Citra Field Day 29




Concluding Remarks

- Cooperatives have rich and important tradition in the American way of life.
- Cooperatives impact each of us in many ways on a daily basis.
- The key to long-term success of this unique approach to conducting business is:

YOUR COOPERATION!!!

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Additional Resources



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Business and Cooperative Programs

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Administrator's Bus

Cooperative Information Reports

Most of the publications are in Adobe Acrobat PDF format. Adobe Acrobat is a method used to transmit documents in their final, printed format for local printing. The Adobe Acrobat Reader to view and print these reports is available, free of charge, on the Adobe Web site: <http://www.adobe.com/products/acrobat/readstep.html>.

CIR-65	The Nature of the Cooperative
CIR-64	A Guide for the Development of Purchasing Cooperatives
CIR-63	Nominating, Electing and Compensating Co-op Directors
CIR-62	Cooperative Directors: Asking Necessary Questions
CIR-61	The Circle of Responsibilities for Co-op Boards
CIR-60	Agricultural Cooperatives in the 21st Century
CIR-59	Audit Status of Farmer Cooperatives: The Story of the Copper Volstead Act
CIR-58	Assessing Performance and Needs of Cooperative Boards of Directors
CIR-57	Understanding Cooperative Bookkeeping and Financial Statements
CIR-56	Managing Your Cooperative's Equity
CIR-55	Coops 101 - An Introduction to Cooperatives (PDF) or (HTML)
CIR-54	Do Yourself a Favor - Join a Cooperative
CIR-53	Cooperative Housing for Rural America
CIR-52	Cooperative Merger/Consolidation Negotiations
CIR-51	Base Capital Financing of Cooperatives
CIR-50 S	Que es una Cooperativa? Para que se Organizan las Cooperativas?
CIR-50	What is a Cooperative? Why Cooperatives are Organized
CIR-49	Shared Services Cooperative
CIR-48	Strategic Planning Handbook for Cooperatives
CIR-45 Section 15	Agricultural Marketing Cooperative

<http://www.rurdev.usda.gov/rbs/pub/cooprpts.htm>

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