PURCHASING COOPERATIVES;
STRUCTURE AND SIGNIFICANCE

by

Craig E. Govan

Bachelor of Building Construction
University of Florida
1985

Submitted to the Department of Urban Studies and Planning
in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE
in Real Estate Development

at the

Massachusetts Institute of Technology

September 1994

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Signature of Author

Craig E. Govan
Department of Urban Studies and Planning
August 3, 1994

Certified by

Dr. Gloria Schuck, Senior Lecturer
Department of Urban Studies and Planning
Thesis Supervisor

Accepted by

William C. Wheaton, Chairman
Interdepartmental Degree Program in Real Estate Development
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Abstract

There is a growing interest on the part of independent businesses and professionals in the concept of purchasing cooperatives. Effective group purchasing of products and services on a cooperative basis enables independent businesses to reduce costs, better meet competition, and improve overall profitability.

This thesis begins with an examination of the general nature of cooperative business and member responsibilities. Legal basis of cooperatives and the most common types of cooperatives are also discussed. The rich history of cooperative business in the United States, from 1620 to the present time, is presented. The cooperative principles assembled in 1844, know as the Rochdale Principles and form the basis for most modern cooperative enterprises, are presented in detail. Also, standard corporation structure is compared with cooperative business structure.

A critical analysis of a proposed purchasing cooperative is made to determine if it is a true cooperative business structure. The analysis compares the proposed cooperative with the Rochdale Principles and a standard corporation structure. Four successful cooperatives are presented to demonstrate different applications of the business structure.

In conclusion, as a direct result of the growing trend in cooperative business formations, real estate development opportunities are being created. The real estate development opportunities and cooperative development possibilities are presented.

Thesis Supervisor: Dr. Gloria Schuck
Title: Senior Lecturer, Department of Urban Studies and Planning
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Cooperative business structures have had a rich history in the United States, starting with the Pilgrims in 1620. Today, there is a renewed interest in cooperatives by businesses across the country. While large corporations become larger and their influence in the marketplace expands, smaller businesses are being forced to cooperate with one another, sometimes for their very survival. Large distribution corporations capable of obtaining and maintaining superior pricing from manufacturers are forcing small and medium size competitors out of business. Today, in virtually every professional field of endeavor there are people either involved with, starting up, or conceiving of cooperatives. The cooperative business structure is a proven method for people to pool their resources together for mutual benefit of its members. The main focus of this thesis is to examine a proposed purchasing cooperative and determine if it is a true cooperative business, when examined against the backdrop of historical examples and proven principles. Given the goals and objectives of the proposed purchasing cooperative, an evaluation is made to determine the appropriateness of the cooperative business format, in light of the many available legal business structures. The thesis presents the necessary background information to make this determination. It concludes that possible financial opportunities for professional real estate practitioners exist within the proposed purchasing cooperative as well as the broader cooperative movement.

In chapter two the background of cooperative business structure is
explored, popular and historical definitions of cooperatives are discussed, members' responsibilities are presented, and the different types of cooperatives are highlighted.

Chapter three of this thesis explores the history of cooperatives, beginning with their colonial origins. Agriculture played a key role in the development of the cooperative movement in the United States. In 1844 a group of pioneers opened a small cooperatively owned store in Rochdale, England, based on a set of operating principles known today as the Rochdale Principles. The Rochdale Pioneers became so successful, that their operating methods and cooperative principles were adapted around the world by existing and emerging cooperative businesses. The history of the Rochdale Pioneers, their original principals along with the modern interpretation, will be discussed.

This thesis distinguishes how cooperatives compare and contrast with other traditional forms of business. Cooperative businesses have expanded significantly throughout the twentieth century and continue to grow even today. To illustrate modern, successful cooperative businesses, four examples have been included.

The fourth chapter addresses the proposed purchasing cooperative. Specialty (i.e., plumbing, electrical and heating/air conditioning) contractors are not being served by the purchasing cooperative structure. A proposal is made for a purchasing cooperative which would serve the needs of the specialty contractors. It is compared against the established principles of cooperation. Given the goals and objective of the cooperative, a determination is made as to the appropriateness of the cooperative business structure. The proposed contractor's cooperative has been the focus of an academic project since December, 1993. The fully developed business plan was entered into the Fifth Annual MIT 10K Entrepreneurial Competition in February, 1994. The business
plan was also presented to the Business Purchasing Cooperative Forum in Washington, D.C. in July, 1994.

The final chapter, chapter five, offers some general conclusions about cooperatives and suggests possible financial opportunities for professional real estate practitioners.
"Cooperatives are experiencing an unparalleled rate of change as they strive to serve members in today's economic environment."

David C. Thomas, President of the American Institute of Cooperation. (McLanahan, 1990, p. 5)

Introduction

Because cooperative businesses are a growing trend in the United States, it is important to understand what a cooperative is and its basic business characteristics. This chapter will define and describe a cooperative and the responsibilities of the members of a cooperative. In addition, the five basic types of cooperatives are presented.

What Is a Cooperative?

According to the National Cooperative Bank (NCB) of Washington DC, a cooperative is a business owned and controlled by those who use its services. Cooperative businesses have the following key characteristics:

- Voluntary membership (open to all interested participants),
- Control of the business by members, usually on a one member-one vote basis,
- Members elect a board of directors which employs management to operate the business, and
- Net earnings not otherwise invested in the cooperative are distributed back to members (patronage refunds) based on patronage or use of the business. (NCB, 1994, p. 1)
Exhibit 1 on page 10 shows the structure of a cooperative organization. Members elect a board of directors who, in turn, select a manager or a management team.

Exhibit 1: Structure of a Cooperative Organization

Cooperatives provide members with consumer goods or equipment, products for resale through their members, or services and supplies for their business operation. Individual cooperatives may form federations of cooperatives to obtain even further benefits.

The Cooperative League of the USA, formed in 1916 to unite the efforts of cooperatives for economic strength and to spread the philosophy of cooperation, defines cooperative:

A Cooperative is people associated to provide goods or services for themselves, agreeing that any who can use the service may
join, within practical limits; that member investment receives only moderate interest; that 'margins' belong to the members according to their use of the services; that control is shared evenly. (McLanahan, 1990, p. 56)

The above definition of a cooperative emphasizes the economic aspects of a cooperative. The next two definitions of a cooperative emphasize the role the members play in the organization, that is, that cooperatives are organizations that belong to and are controlled by the members.

The National Cooperative Business Association (NCBA), a national membership and trade association representing America's cooperative business community, defines a cooperative as:

A cooperative is a business in many ways it's like any other business; but in several important ways it's unique and different. A cooperative business belongs to the people who use it - people who have organized to provide themselves with goods and services they need. These members share equally in the control of their cooperative. Members invest in shares in the business to provide capital for a strong and efficient operation. All net savings (profits) left after bills are paid and money set aside for operations and improvements, are returned to co-op members. (McLanahan, 1990, p. 56)

H. Whitney, a leader in the cooperative movement, defines a cooperative as,

A self-help business enterprise, voluntarily owned and democratically controlled by its members to perform services for the members on a non-profit or cost basis. (McLanahan, 1990, p. 56)

In his definition of a cooperative, David C. Thomas, President and Chief Executive Officer of the American Institute of Cooperation addresses the purpose of a cooperative based on a common need.

A group of people, faced with a common need, who decide that the best or only way to meet that need is by organizing to help themselves. This they do by joining voluntarily to pool their capital
investments and thus to own, control and promote their enterprise. (McLanahan, 1990, p. 56)

**Member Responsibilities in a Cooperative**

Members have the responsibility to finance their cooperative, patronize its goods and services, elect a board of directors, attend meetings, and vote on current issues. Capital needs of a cooperative are:

- start-up costs,
- working capital to cover any early operating losses, and
- funds necessary to support cash requirements or finance other assets.

Critical to the success of a cooperative is member willingness to adequately capitalize it.

- Initially with an out of pocket investment,
- on an ongoing basis, through retention of earnings to the necessary level.
- Prompt payment of bills by members is necessary and so is not requesting the co-op to finance the member's non-current purchases (accounts receivable). (NCB, 1994, p.3)

Member capital indicates commitment and is the least expensive. While members have responsibility for the basic financing of their cooperative, trade credit and bank financing also play a vital role in a successful cooperative. According to the National Cooperative Bank (NCB) "in addition to reviewing a business plan, the most important elements of financial consideration by a bank will be the repayment ability of the business and the adequacy of cash flow. Collateral is the lender's fallback position to cover the risk in case the projections are not realized or the business fails." (NCB, 1994, p. 3)
The Legal Basis For Cooperatives

The first law to be passed in any country was the Industrial and Provident Societies Act, enacted in England in 1852. It provided for the legal operation of businesses by and for member patrons. Since that time much legislation has been passed enabling cooperatives to function as business entities. Cooperatives in all 50 states operate under explicit federal and state statutes.

Cooperatives are governed by federal and state cooperative laws, court decisions and internal bylaws. Prior to the enactment of cooperative corporation laws, associations could either operate as unincorporated associations, with all the risks of a partnership, a legalized nonprofit association or a general corporation. The general corporation fails to recognize the specific character of a cooperative and its nonprofit member-user characteristics.

The Capper-Volstead Act of 1922 affirmed the right of farmers to unite and market their agricultural products cooperatively without violating any anti-trust laws. It made clear that eliminating competition between agricultural producers by their collective action in a marketing cooperative in and of itself did not constitute a violation of anti-trust laws. (Schaars, 1971)

Types of Cooperatives

The five different types of cooperatives can logically be classified by their function. The most common types of cooperatives are as follow:

1. Production
2. Processing
3. Sales or Marketing
4. Purchasing
5. Service
Production Cooperative

This type can be characterized by employee owned and run organizations which deal with raw materials. Examples can be found in the extractive industries like coal mines, forests and fisheries. Manufacturing cooperatives fall into this category, for example; cooperatively owned plywood factories located in Washington, Oregon, and California.

Processing Cooperative

In this category the main emphasis is on processing raw material into marketable products. A local cooperative plant which processes cheese, or cream or slaughters animals for consumption are examples.

Sales or Marketing Cooperative

Marketing cooperatives perform a full range of services for their owners such as; grading, packing, labeling and storing products. Other services include; advertising, selling and merchandising products. Some cooperatives do not physically handle the products but simply negotiate prices and terms of the sale. Others simply sell the consigned products at auction or on a commission basis.

Purchasing Cooperative

Purchasing cooperatives fall into three categories. Farm supply cooperatives deal primarily in products to help farm production. Consumers' cooperatives handle products of all kinds for consumption. Finally, wholesale or purchasing cooperatives sell merchandise to retailers and professional end users. Purchasing cooperatives are popular in businesses like grocery, pharmacy, hardware, automotive supplies, furniture, shoes, lumber and building
materials, bakery, seafood, plumbing, and electrical. "Purchasing cooperatives", according to Charles Snyder, President of the National Cooperative Bank, "represent the fastest growing segment of cooperatives in America." (Snyder, 1994)

Service Cooperative

Service associations essentially provide services rather than handle products. The oldest cooperative in America was an insurance society. Today cooperatives provide financial services, electric service, housing, telephone service auditing, transportation, and news collection and distribution. The services provide benefit to most public and private sectors of the economy. (Schaars, 1971)

In summary, a cooperative is a unique form of business which millions of people and businesses utilize for their mutual benefit. Group purchasing can help independent businesses and professionals succeed in an increasingly competitive economy while maintaining individuality.

Starting a cooperative, however, requires time, energy, commitment, and technical resources. Recognition of a commonly felt need is fundamental to the formation and successful operation of a cooperative. A successful cooperative requires member commitment to finance and to patronize it; procurement of an experienced, qualified manager to operate it; and a good board/manager relationship to help guide it. (Schaars, 1971)

Conclusion

A cooperative has the best chance of success when there is a demonstrated need for particular products or services. For example, over
20,000 independent hardware dealers purchase their goods for resale through eight cooperative wholesalers. Cooperative purchasing enables 30,000 independent food stores to obtain supplies in order to better compete with chain stores. It is the means by which 19,000 local florists provide floral delivery through FTD. In all, there are currently 47,000 cooperative organizations in the United States boasting more than 120 million members. (McLanahan, 1990)
"If competition means that I succeed only if you fail, cooperation means that I can succeed only if you succeed, too. We sink or swim together. And some very impressive swimming can be observed when people pool their resources - as they do in cooperatives."

Alfie Kohn, author of *No Contest: The Case Against Competition.* (Mclanahan, 1990, pp. 1-2)

**Introduction**

This chapter contains a brief description of the origin and history of cooperatives in the United States. To best understand the present condition of cooperatives an understanding of the past is helpful. Cooperative business structure is differentiated by comparing it to standard for-profit corporations. Finally, four existing businesses are discussed to illustrate their objectives for operating as cooperatives.

**Colonial Origins**

According to Knapp, (1969) the Pilgrims formed the first cooperative organization in the New World, settling in 1620. In their new surroundings, the Pilgrims soon found that mutual help in building and maintaining homes was necessary. This conclusion was encouraged by the religious teachings of their church and their democratic form of government followed at town meetings. The concept of mutuality was also suited to their first industry-fishing, in which fishermen pooled their labor in order to share in the day's catch.

Compulsory cooperation gradually gave way to voluntary cooperation of groups of settlers in heavy tasks like log rolling and corn husking which soon
became a significant feature of colonial agriculture. As the pioneers moved westward, they took the practice of group cooperation with them. There was little opportunity for more complex forms of cooperation to develop since self-sufficient agriculture and household industry dominated much of the colonial period. Industry was still in the household or handicraft stage, so there was no large urban class of wage workers, and thus little need or opportunity for cooperation to develop in buying and selling commodities. Cooperation as a form of business enterprise first started in the field of fire insurance. (Knapp, 1969)

The Emergence of Mutual Fire Insurance

From the time of the first Pilgrim settlements in America, fire was an enemy. The potential for disaster in the small communities was enormous. Neighbors not only helped each other in preventing and fighting fires, but shared part of the loss from fire. They would take up a collection to help those who had suffered the loss.

The seriousness of fire loss attracted the attention of Benjamin Franklin as early as 1735, when he recommended various measures for preventing fires "as an ounce of prevention is worth a pound of cure." (Knapp, 1969, p. 7)

The following year, Franklin and four friends founded the Pioneer Union Fire Company as an association for mutual assistance in fighting fires. Each member agreed to furnish his own fire fighting apparatus. This company became the model for many similar volunteer fire fighting companies which have been a feature of American culture down to the present day, and the direct model of mutual fire insurance companies established in America. (Knapp, 1969)
If neighbors could organize cooperatively to protect their homes from fire loss, why couldn't they "chip in" to a fund which could be used to meet losses which any of the group might suffer by fire? This thinking led the members of the Union Fire Company in February, 1750 to raise 200 pounds for an insurance fund that would cover the loss of anyone who belonged to and invested in the company. This resulted in the formation of the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire.

The actual operation of the company was simple. Members made a deposit of 20 shillings to insure brick and stone houses in good condition, or at the rate of 1 percent of value. This deposit was all that was required during the life of the policy, unless an assessment should be required by a general fire disaster. The directors took their responsibilities seriously, and they conscientiously considered all claims for loss and similar problems.

The success of the Philadelphia Contributionship encouraged the formation of a number of similar mutual fire insurance companies prior to the formation of the first stock company in 1794. By 1800 there were some 10 mutual fire insurance companies in existence. Thus, it was in the field of mutual insurance that the cooperative form of business enterprise first took form in America. Many different types of cooperatives were patterned after Mr. Franklin's, including those in a variety of industries. (Knapp, 1969)

**Building and Loan Associations**

The rapid growth of cities with the rise of working-class solidarity was favorable to the development of another form of cooperative enterprise—the building and loan association. The first association of this type was formed in Philadelphia in 1831. Such organizations did not become general until 1850,
when they were formed in increasing numbers as a protest against higher rents, under the slogan, "Do your own land lording." (Knapp, 1969, p.11)

Under the general plan, members contributed funds in weekly installments to a common pool from which members who wished to build could borrow. The interest paid by the borrowers for capital to build homes was paid to the lenders (members). Thus these associations were, in effect, mutual savings banks to facilitate home ownership. The achievements of these associations in making home ownership possible did much to gain recognition for the cooperative movement in the latter half of the eighteenth century. The original form of building and loan association was little more than a home builders' club, where each individual paid into the common treasury a certain sum of money each month. The purpose was to secure enough members so that a moderate monthly payment by each would provide every month a fund sufficient to build a house for one of the group. For example, if there were one hundred members and each paid into the association twenty dollars per month, every month one member could begin the building of his house, to cost two thousand dollars; and at the end of one hundred months each would have a two-thousand dollar home. The club required each house-builder to give a mortgage on the home as security in case he failed to continue his monthly payments after receiving a loan from the association. When each member has acquired a house, the association, having accomplished its purpose, was dissolved. (Moulton, 1938)

From this humble beginning the credit union was born and is still thriving even today.

**Agricultural Beginnings**

Any historical record of cooperatives would be incomplete without discussing the significant contributions of the agricultural industry.
Up to 1860, the farmer largely had relied upon his own resources to produce for the needs of his family and nearby markets. By 1890, a pronounced transformation to commercial and capitalistic farming had occurred. A combination of forces had brought about this significant positive change in the farmer's economic position. Of these, the most important were: a great expansion of farming land, encouraged by the Homestead Act of 1862, the westward expansion of railroads, a steady reduction of costs of agricultural production through improvements in farm machinery and technical progress, and a continuous growth of commercial market outlets made possible by rapid population growth - - stimulated by immigration, urbanization of industry, and improved methods of communication and transportation. With this rapid expansion and mechanization of farms, output increased. This increased supply exerted a downward pressure on farm prices, which was further aggravated by the decline in the general price level which followed the Civil War. The farmer, however, would not accept the theory that his troubles were entirely due to overproduction and deflation. He also blamed an unfair system of interchange, whereby he was forced to pay excessive tolls in marketing his products, and excessive prices for his purchased supplies. He was vehement in his resentment of all middlemen. As the farmer saw his condition, he was "fleeced both coming and going." (Knapp, 1969, p.47)

Unable individually to protect himself against exploitation from an industry which was rapidly becoming organized into corporations, the farmer turned for relief to economic cooperation as a counter method of organization.

**Evolution of Early Buying Plans**

The earliest farmer activity in cooperative buying was a grass-roots growth characterized by the concentration of buying power. The arrangements were
simple; the farmers agreed to give a local merchant their exclusive cash patronage in return for substantial reductions in prices. This method usually worked well for a short time and then broke down when other merchants lowered their prices to meet the competition.

The weakness of the plan soon led local farmers' cooperatives to employ their own business agents to by-pass the local merchants. Under these plans, as they developed by trial and error, each local farmer's co-op had its own representative or agent who, usually on a volunteer basis, assembled orders and placed them with wholesale merchants or manufacturers. It was not long before the advantage of having a state co-op became evident, since this would keep the local co-ops from bidding against each other. The local co-ops would send in their orders to the state agent, who then placed a combined order with a manufacturer or wholesale merchant. This arrangement worked well for commodities that could be purchased in bulk quantities such as dried fruit, flour, sugar, sewing machines, etc. But it was not adapted to the needs of farmers for the many miscellaneous items required in everyday life. About 1873, the system at the local points began to give way to the establishment of stores. The stores would carry a stock of merchandise and have samples available of other goods that could be ordered on demand. By this time the state co-ops were beginning to show weakness, as a result of the rise of a class of wholesale merchants who were willing to give local co-ops special deals.

These early ventures were only embryonic cooperative structures. They needed a set of principals from which to operate successfully. They soon turned to the Rochdale Cooperative Model. The Rochdale cooperative method is considered by the cooperative movement as the foundation for modern cooperatives.
Rochdale Pioneers

In 1844, a small group of individuals opened a tiny store at 31 Toad Lane, Rochdale, England, 12 miles north of Manchester. This enterprise is considered to be the birth of the modern cooperative. The original 28 Rochdalians (founding members) had high hopes of not only establishing a store for the sale of provisions but also to acquire homes in which their members could live; manufacture products that the society's members might need as well as to provide employment; to acquire land on which to produce products needed by members; and to employ out of work members. They also wanted to establish a self-supporting home colony of united interests and to arrange the powers of production, distribution, education, and government in the interests of its members. The original principals (Schaars, 1971, pp. 68-69) which these pioneers established were as follows, with the modern interpretation in parenthesis:

1. Capital should be of their own providing and bear a fixed rate of interest. (Limited return on equity capital.)

2. Only the purest provisions procurable should be supplied to members. (To assure high quality of goods supplied.)

3. Full weight and measure should be given. (Provide honesty in weighing.)

4. Market prices should be charged, and no credit given nor asked. (Cash trading; no charge accounts; charge prevailing prices.)

5. Profits should be divided in proportion to the amount of purchases made by each member. (Patronage refunds.)

6. The principals of "one-member, one vote" should prevail in government, and the equality of the sexes in membership. (Democratic control.)
7. Management should be in the hands of officers and a committee
elected periodically. (Representative government and control of
the cooperative.)

8. A definite percentage of profits should be allotted to education.
(Provision for education in cooperation.)

9. Frequent statements and balance sheets should be presented to the
members. (Member information.)

10. No inquiry should be made into the political or religious opinions of
those who apply for membership. (Political and religious
neutrality.)

Although these rules were originally conceived to run a small grocery
store they clearly have wider application for all types of cooperatives.

The rules of the Rochdale Equitable Pioneers became the foundation of
cooperatives around the world. The provisions, as originally written are as
follows:

**OBJECT.** The object of this Association is to establish and maintain
general trade in merchandise, farm products, and machinery, for the mutual
benefit of the shareholders and customers.

**MEMBERS.** Any member of the Order of Patrons of Husbandry in good
standing may become a member of this Association by subscribing and paying for
at least one share therein, and by signing his name and place of residence to
these rules. But no Patron shall continue a member unless he purchases goods
from this Association to the amount of twenty dollars per year.

**CAPITAL.** The capital of this Association shall be _______dollars, and
shall be raised in shares of five dollars each, which shall not be transferable
except to members of this Association.

**PROFITS.** The net profits of all business carried on by said Association,
after paying the expenses of management, making the proper reduction in value
of fixed stock, and paying the interest on the capital thereof as aforesaid, shall
from time to time be applied by vote of the Association at the quarterly meeting of
the Association, either to increase the capital or business of the Association, or
for any educational or provident purposes authorized by the Association, and the
remainder shall be divided among those who have purchased goods from this
Association during the preceding quarter (to non-members one half the proportion
of members) in proportion to the amount of purchases during the quarter.

**MANAGEMENT OF BUSINESS.** The directors shall have the general
management and supervision of the business of the Association; shall appoint the
salesmen and other employees; and shall assign to them such duties and
compensation as the Directors may think fit.
CASH TRADING. The business of the Association shall be conducted for cash. All persons trading with this Association shall be furnished with checks representing the amount of their purchases.

INVESTMENT. This Association may invest such portions of its surplus capital in any wholesale Co-operative Association as the Association may determine, notice of the same having been given in writing at a previous regular meeting; and such investment shall be made under the supervision of the Directors.

VOTING. At all meetings of the Association or of the Directors each member shall have one vote only. (Knapp, 1969, p. 53)

Adaptations

From these beginnings the cooperative movement has made remarkable strides. The three principles most commonly adhered to are:

1. Control by member users - also called democratic control.

2. Operations on a cost - of - doing business basis - that is, nonprofit operations.

3. Limited returns of dividends upon ownership capital. (Schaars, 1971)

The first principal means each member is limited to one vote on each issue voted upon, regardless of how much stock is owned or how much business is transacted with the cooperative. Additionally, voting by proxy is not allowed in the cooperative.

The second principle is achieved by charging patrons only the actual cost of goods or services. If there are overcharges, these are returned to the members in proportion to the business they have transacted with the cooperative. The cooperative is not operated to profit at the expense of its members. Any excess income over expenses is returned as a patronage refund to the member, pursuant to a mandatory contract to do so (bylaws). Such excess income over expenses seems to be a profit, but in view of the existence of the mandatory obligation to refund it to the patrons, the return of the overcharges actually reduces the gross income and places the cooperative on a
"cost of doing business" basis. Operation on a nonprofit basis simply means that the cooperative is not run to make profits for the investors by maximizing dividends on shares of stock but rather to benefit member patrons. The refund of over-charges may be in cash, partly in cash and the rest deferred, or entirely deferred. Since the passage of the 1962 Federal Tax Law, most cooperatives refund at least 20 percent in cash and the rest as non-cash refunds.

The third principle, limited return on invested capital, is intended to keep the cooperative operating for the benefit of the members and not specifically for the stockholders. The return on the investment is called a "dividend" and not "interest," although the relatively fixed annual return appears more like an interest payment than a variable dividend. Interest payments are operating expenses; dividends are not. The capital used to facilitate operation should be paid for as are labor, land, and management. The nominal payment for use of such capital is approximately equal to the return on government bonds. Such restriction on dividends discourages control of a cooperative by persons more interested in stock dividends than on savings or refunds to members. The limitation tends to keep the value of the shares of stock at face value (par), since stock value rises and falls in correlation to the expectation of dividend value. Dividends are paid out of net earnings and if there are none, no payments can be made without impairing the capital of the cooperative. Some cooperatives pay no dividends on equity capital (ownership capital from members). To qualify for exemption from federal income taxes, among other restrictions, dividends must not exceed 8 percent per annum or the legal rate of interest in the state of incorporation, whichever is greater, on the par value of the stock. (Schaars, 1971)
1900 - 1920 Cooperative Growth

Cooperatives, now following the proven principles of success, entered a phase characterized by rapid expansion in the areas of marketing, purchasing, and service. By 1920 there were 10,588 active marketing and purchasing associations; 1,944 farmers’ mutual fire insurance companies; hundreds of dairy associations, irrigation cooperatives, federal land bank associations, urban consumer cooperative stores and miscellaneous cooperatives - - approximately 14,000 cooperatives in all. (Schaars. 1969)

Political support for cooperatives became abundant during this time in history. President Theodore Roosevelt endorsed farmers' cooperatives in 1909 and President Woodrow Wilson appointed a United States Commission to study cooperative credit as it was being practiced in foreign countries. The commission's report approved strongly a cooperative credit system for American farmers and indirectly paved the way for the Federal Farm Loan Act in 1916. Also in 1916, The Cooperative League of the USA was organized for the purpose of providing information, education and cooperative leadership to its members. During this time in history many cooperative organizations became firmly established, were conspicuously successful and proved to members and skeptics that farmers could organize and run businesses to their advantage.

1920 to Present

During this period in history the cooperative movement was very active. By 1929 about 3 million farmers belonged to cooperatives collectively generating revenues in excess of $2.5 billion. The significant events that characterized this period include the following:
• The Capper-Volstead Act was passed in 1922 to legalize farmers' cooperative marketing associations engaged in interstate and foreign commerce.

• The American Institute of Cooperation, organized in 1925 to serve as the educational arm of the Farmers' cooperative movement.

• Many favorable court decisions approved marketing contracts with member producers and established that cooperatives were not in violation of antitrust laws.

• Widespread attention was given to cooperatives by farmers, the agriculture press and news media, political parties, educators, the courts, businessmen and general citizens.

Many of the large national cooperatives that continue to operate today were begun prior to 1930; for example, Land O' Lakes, Inc., Equity Cooperative Livestock Sales Association, and Midland Cooperatives, Inc. In 1936 the Rural Electrification Act was passed which made it possible to create rural electric cooperatives, established to provide electricity to outlying, unserved areas. In 1933 Congress enacted the Farm Credit Act which created 12 regional and 1 central bank for cooperatives. The Federal Credit Union Act of 1934 was passed helping to create credit unions, many of which are still in operation today. During the 1940's farmers' marketing associations increased business from $1.7 billion to $7 billion as the post-war economy provided opportunities for growth and deep market penetration by all forms of cooperatives. During the 1950's and 1960's farmers' marketing and purchasing associations increased their annual business another $9 billion, but the aggregate number of cooperatives fell due to mergers, discountenances, and to technological developments that have influenced many industrial and commercial corporations. (Schaars, 1971)
Modern Cooperatives

Businesses such as food retailing and hardware are joining co-ops increasingly to give themselves the purchasing leverage enjoyed by their larger competitors. The strategy continues to rapidly grow as fast-food franchises, health care providers, wholesalers, computer-software producers and small businesses of all sort seek the benefits of cooperative membership. According to Snyder (1993), President of the National Cooperative bank, co-ops are gaining renewed popularity because of increased competition both at home and abroad. "The smaller companies that are unable to compete with big corporations are finding that it's better for them to cooperate with one another so they can remain independent but increase their efficiency." (Obrien, 1993) He also reports that his bank loan portfolio, which currently totals $1.2 billion, has grown 13% per year for the last five years. Cooperatives are a model that people in different industries are finding attractive because it makes individual businesses part of a larger group that shares a common purpose. The cooperative structure has become increasingly mainstream as evidenced by the participation of America's largest franchise corporations like; Dunkin' Donuts, Kentucky Fried Chicken Corp., a subsidiary of PepsiCo Inc., Popeye's Famous Fried Chicken & Biscuits, Ace Hardware and True Value Hardware. These corporations and many more are finding that the cooperative structure provides benefits unattainable under other operating structures. (O'Brien, 1993)

Similarities with Non-Cooperative Businesses

Cooperatives are not unlike the non cooperative businesses with which they must compete. Both types of businesses enter the labor, capital, and management markets and must pay the same wages, same interest rates, and comparable compensation for management. Many operational practices are the
same, such as packaging, storing, transporting, processing, granting of credit, advertising, and pricing. Both types aim to improve their efficiency and operate economically. Both may be located in the same business sections of the city or town. The same general economic factors - employment and unemployment, tightening or loosening of credit, inflation and deflation, taxes, and changes in consumption patterns - affect both. One cannot tell, simply by looking at the front of an office, warehouse or store, if the business is a cooperative. The observer must investigate the operational and ownership structure to identify a cooperative. (Schaars, 1971)

**Differences Between Cooperative and Non-Cooperative Businesses**

The differences are primarily in the relationship between the owners and their organization and in the way profits and net savings are distributed. The following table highlights the differences between cooperatives and non cooperatives corporations. (Schaars, 1971, p. 11)

<table>
<thead>
<tr>
<th>Differences</th>
<th>Standard Corporation</th>
<th>Cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>To earn profits for investors; increase value of shares; and provide employment for owners of small corporations.</td>
<td>To maximize net and real income of member users; and provide goods and/or services at cost to member users.</td>
</tr>
<tr>
<td></td>
<td>To serve the public generally.</td>
<td>To serve its members.</td>
</tr>
<tr>
<td>Organization</td>
<td>Incorporated under state general corporation law; no federal charter.</td>
<td>Organized under state cooperative law; such as federal credit unions or federal charter.</td>
</tr>
<tr>
<td></td>
<td>Except for closely held corporations, anyone may own stock.</td>
<td>Organized around mutual interests of its member users.</td>
</tr>
<tr>
<td></td>
<td>Organized and owned by investors.</td>
<td>Organized and owned by member users.</td>
</tr>
<tr>
<td>Differences</td>
<td>Standard Corporation</td>
<td>Cooperatives</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Organization Cont.</td>
<td>Stock of large corporations is sold on stock exchanges or &quot;over the counter.&quot;</td>
<td>No public sale of common voting stock; not listed on stock exchanges.</td>
</tr>
<tr>
<td>Control</td>
<td>By investors, the stockholders. Policies determined by stockholders and directors.</td>
<td>By member patrons. Policies made by members. Voting in local associations usually on a one-person one-vote basis, or patronage basis. In federations, locals vote either on number of members represented or on volume of business done with the central organization.</td>
</tr>
<tr>
<td></td>
<td>Voting basis of stock ownership according to the number of shares held.</td>
<td>Proxy voting permitted. Frequently control is exercised by &quot;inside cliques.&quot; Generally, no proxy voting. Internal cliques can seldom get control.</td>
</tr>
<tr>
<td>Sources of Capital</td>
<td>From Investing public</td>
<td>From member users primarily.</td>
</tr>
<tr>
<td></td>
<td>From successful business operations with all or part of the profits reinvested.</td>
<td>From net earnings on successful operations with reinvestment of part or all of the savings.</td>
</tr>
<tr>
<td>Distribution of Net Margins</td>
<td>To stockholders in proportion to number of shares of stock held.</td>
<td>To patrons on a patronage basis after modest dividends on stock have been paid; reserves and, in some cases, an educational fund and bonuses to employees are set aside.</td>
</tr>
<tr>
<td>Stock Dividends</td>
<td>No limit, depends on amount of profits and distribution policy.</td>
<td>Limited to a nominal amount, generally does not exceed 8 percent.</td>
</tr>
<tr>
<td>Operating Practices</td>
<td>Use conventional methods of financing; sale of stock, issuance of bonds, bank loans, and reinvestment of part or all of the profits.</td>
<td>Use revolving capital plan of financing based on the amount of business transacted with patrons in addition to conventional financing procedures.</td>
</tr>
<tr>
<td></td>
<td>Usually purchase products on a cash basis.</td>
<td>Usually pool sales receipts and pay average prices by grade for products received,</td>
</tr>
<tr>
<td>Differences</td>
<td>Standard Corporation</td>
<td>Cooperatives</td>
</tr>
<tr>
<td>------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Operating Practices Cont.</td>
<td>Business done with public generally and not restricted as to clientele except in exceptional cases.</td>
<td>Business done primarily and exclusively with members.</td>
</tr>
<tr>
<td>Primarily interested in operational efficiency to cut costs, less interested in pricing efficiency.</td>
<td>Not only interested in operational efficiency but in pricing efficiency as well so that differential pricing by grades may reveal to producers ultimate consumer preferences, tastes, and purchases.</td>
<td></td>
</tr>
<tr>
<td>Charge competitive prices or what &quot;the traffic will bear.&quot;</td>
<td>Charge either competitive or &quot;break-even&quot; prices in purchasing associations.</td>
<td></td>
</tr>
<tr>
<td>Initial Transactions</td>
<td>The purchase or sale is a complete transaction.</td>
<td>The purchase or sale is, in a sense, a conditional transaction subject to a refund or additional payment at the end of the accounting period, if net earnings or savings are made.</td>
</tr>
<tr>
<td>Tax Treatment</td>
<td>Subject to many kinds of taxes including state and federal corporate income taxes.</td>
<td>Also subject to many different kinds of taxes. However, cooperatives organized under Chapter 185 do not have to pay a state corporate income tax and, if about 10 restrictions are met, can also be exempt from paying federal corporate income taxes.</td>
</tr>
<tr>
<td></td>
<td>Some privately owned Cooperatives are subject to property taxes on real estate.</td>
<td>Net earnings are taxable to farmer recipients.</td>
</tr>
</tbody>
</table>

**Successful Cooperatives**

The cooperative business structure is serving businesses in nearly all professional fields. Four successful cooperatives will be presented in the following discussion.
Dunkin' Donuts

Dunkin' Donuts, Inc. and many of its franchisees own and operate a purchasing cooperative headquartered in a new 43,000 square foot distribution facility located in Westboro, Massachusetts. The trucks carry supplies to Dunkin' Donuts stores throughout the six-state New England region. Last year, the warehouse did $30 million in sales to Dunkin' Donuts. The warehouse belongs to a group of Dunkin' Donuts franchisees and is part of a cooperative purchasing program in which the franchisees have banded together to maximize their buying power, and share profits. The company is based in Randolph, Massachusetts and is a proponent of purchasing co-ops. About 95% of its more than 1,400 donut shops are franchised, and almost all are co-op members. Franchisees are actually building their own regional distribution centers. Supported by fees from both franchised and company-owned stores, two distribution centers have already been built, and four more are planned. These would cover the chain's six existing purchasing groups across the country and in Canada. In order to build a service center each store must contribute between $2,000 to $3,000 as a one time membership fee. Once the center is operational the costs are built into the price its members pay for the products they buy through it. If the center's income exceeds its expenses over the course of the year, the surplus funds are distributed evenly among its member stores or discounted from their subsequent orders. (Raffio, 1993)

Arcop Incorporated

Arcop, Inc., the purchasing cooperative of Arby's restaurants, was formed in the late 1970's to assure the ability of the restaurants to operate during bankruptcy proceedings. Franchisees joined together to form a buying group so that purchasing control could be maintained. Arcop is a separate corporation,
the stock owned by the members. Arcop is non-profit, and funds to cover its operating costs are generated through membership fees. Members pay $260 per year per restaurant, plus a one-time fee of $100 to join. Unlike Dunkin' Donuts cooperative, Arcop contracts directly with the manufacturer as a contract agent only. There are no warehouses or delivery trucks. The primary benefit of the cooperative is volume discounts with the manufacturer through volume-purchasing. The products include food, paper and other supplies necessary to run an Arby's restaurant. The benefits are the same to the franchisees whether they have one restaurant or one hundred. (Raffio, 1993)

Aldus Corporation

Aldus Corporation is a small Seattle software company which makes desk-top publishing software. Their most popular software package is called PageMaker. Aldus has recently established, by its own description, the first cooperative in the high technology field. The company has invited more than 140 independent software producers to join a cooperative to develop customized versions of PageMaker for use by people in various professions. The benefit of joining the cooperative for the independents is the right to earn the entire profit from the sale of the custom version of PageMaker. (Aldus Corporation would still earn the revenue from the sale of the core portion of the software). The cooperative would provide marketing and distribution assistance to the independents as these costs are typically prohibitive. Aldus Corporation would like the independent businesses to run their cooperative as they see fit. Since Aldus is facing stiff competition in the marketplace, the cooperative offers the opportunity to affordably develop innovative uses and new markets for PageMaker. (O'Brien, 1993)
Independent Pharmacy Cooperative

In 1986, the Independent Pharmacy Cooperative (IPC) was little more than a promising idea, a shoe string operation with one employee who worked out of a basement. By 1992 the IPC could boast nine full-time employees plus a 3,600 square foot warehouse. The IPC in 1992 had $150 million in annual brokered sales, making it one of the most successful retailer-owned cooperatives in the country. The IPC is based in Madison, Wisconsin, serving 400 non-chain store druggists throughout Minnesota, Wisconsin, North Dakota, and Michigan.

The cooperative provides a broad menu of services ranging from volume purchasing for name brand pharmaceuticals as well as generic drugs and other medical supplies, to a wholly owned dispensing subsidiary and even a clearing house for cents-off coupon redemption. The IPC provides its independent member retailers with the critical mass to achieve volume discounts that would only be available to larger competitors such as chain stores and mail order distributors.

The IPC was founded by a group of neighborhood druggists in Madison when they realized they could combat their problems more effectively if they worked together than if they remained on their own. In the mid-1980s, a series of laws passed by the Wisconsin legislature to promote the expansion of health maintenance organizations had the side effect of reducing the reimbursement rate that druggists could claim for filling prescriptions. Independent pharmacists saw their profit margins tumble almost overnight. Combined with the ongoing competition from low-priced chain drug stores and the rise of mail order discount prescription services, a group of 12 Madison pharmacists decided it was time to find ways to cooperate if they were going to survive. This core group formed a cooperative, then barnstormed around the area soliciting other independents to join them. At the same time, the group also began negotiations with various
wholesalers, offering a dedicated volume purchase in return for a solid discount. However, wholesalers were less than thrilled with the idea. In its first few attempts at negotiating a favorable price from wholesalers, the cooperative was turned down cold.

But, on its third try, the cooperative struck pay dirt, and landed a deal with McKesson Drug Company, the nation's largest drug wholesaler. McKesson had lacked any market presence in Madison, and correctly saw the new cooperative as a way to gain entry into a new market. The wholesaler offered the cooperative the discounts it wanted on a sliding scale basis, so that higher volume purchases would result in lower unit prices. With this new deal in hand, the cooperative was able to expand rapidly. In the years that followed, IPC began building on this foundation by adding more and more services. According to John Pike, the cooperative's executive director and the cooperative's first employee, "The cooperative structure is probably our most important asset, it means that whatever we do has to benefit our member pharmacists, not outside investors or owners. Our members know that all our decisions have only one goal: making them better businesses." (Cooperative Business Journal, 1992, pp. 6-7)

Conclusion

Originally, the pilgrims cooperated for survival - - compulsory cooperation to improve living conditions. Through history cooperation became a way to improve the farmers' lives by sharing common needs such as production equipment, product marketing and information. Today, businesses are cooperating for fundamentally the same reasons. Since the Rochdale Pioneers drew up a set of successful principals, cooperatives around the world have a guide or blueprint to follow.
The example companies, Dunkin' Donuts, Inc., Arcop Incorporated, Aldus Corporation, and the Independent Pharmacy Cooperative, all utilize the Rochdale Principles, to varying degrees. They practice patronage refunds in some form, their membership is voluntary, the companies are controlled by their members and to accomplish their goals they combine their purchasing power.
CHAPTER 4
COMPARISONS

Introduction

A successful cooperative requires member commitment to finance and to patronize it; procurement of an experienced, qualified manager to operate it; and a good board/manager relationship to help guide its effectiveness. (NCB, 1994, p. 4) In addition to proper financing, qualified management and good board/manager relations a cooperative should comply with all the principles of cooperation set forth by the Rochdale Pioneers. These principles will be used to establish whether or not the following proposed purchasing cooperative truly is a cooperative. Additionally, the cooperative will be compared against typical corporation standards to determine further, if in fact, it is a cooperative.

Case Overview

In order to establish definitively if the proposed purchasing cooperative is truly a cooperative, by meeting the test of the Rochdale Principles, a brief overview of the proposed purchasing cooperative is presented.

One particular industry sector which may not be currently served by the cooperative business structure is the specialty contracting business (i.e., plumbing, electrical and heating/air conditioning contractors). There are, however, examples of supplier or distribution cooperatives for specialty goods operating successfully in the United States. Also, there is recognition of a commonly felt need to start such a purchasing cooperative. The results are supported by general market research conducted between December, 1993 and July, 1994 by MIT student researchers. (MIT, 1994) During the development of the proposed purchasing cooperative, approximately seventy interviews have been conducted. Those interviewed thus far include tradesmen, bankers,
lawyers, computer experts, parts distributors, architects, builders, students, and professors. The proposed cooperative is intended to be a true cooperative.

The thesis compares the proposed purchasing cooperative with the principles set forth by the Rochdale Pioneers 150 years ago.

The Proposed Purchasing Cooperative

The proposed cooperative is an organization of specialty contractors either plumbing contractors, electrical contractors or heating and air conditioning contractors. The objective is to combine their purchasing power in order to achieve volume discounts from manufacturers or wholesalers, much the same way Dunkin' Donuts franchisees and the Independent Pharmacists have done. Since contractors typically perform their work away from any fixed office or store location they potentially can locate anywhere within their service or contracting area. Because of this circumstance, an opportunity is created for the contractors to locate in one common office park that will include a parts supply distributorship. Perhaps they will operate like the medieval guilds that were associations of businesses of similar products or services collaborating to provide support to one another. (McLanahan, 1990)

The contractors will physically locate in their own office/warehouse bay either through purchase or rental. The contractors will maintain their individual company identity with respect to the market they serve but purchase their repair or construction supplies from their own cooperatively owned supply distributorship. To become a member of the cooperative a contractor does not have to physically locate at the office park. The contractor needs only to pay the membership fee, patronize the cooperative and abide by the bylaws established by the board of directors. Some contractors will initially invest capital to construct and stock the supply facility. The cooperative members upon
formation must elect a board of directors to oversee the operation. The board will consist of a President, Vice President, Secretary, and Treasurer. Weekly educational programs will be held in a conference room in the supply facility. The topics will include cooperatives, bookkeeping, computers, new products, techniques, and other topics requested by members. The board of directors will hire a manager to run the supply facility on behalf of the entire membership. The manager in turn will hire the appropriate staff.

Supply house revenues from operation will be used to pay the cost of goods, salaries, all operating expenses and limited dividend payments to members for initial capital invested at a fixed rate of interest (limited by law).

The typical net margin (profit) of parts suppliers is approximately 4% of total revenue. (American Supply Association, 1989) That profit would be used to support educational programs and improve delivery services; the balance would be returned to members in the form of patronage refunds in proportion to their level of patronage.

In summary, the cooperative would be a membership of specialty contractors united primarily to purchase required parts and supplies. Locating at the office park is optional and not necessary to access the supply facility.

Cooperative Test

Based on the ten original Rochdale Principles of cooperation, following is a comparative analysis between the proposed purchasing cooperative and those principles.

Principle 1. Capital should be of their own providing and bear a fixed rate of interest. (Limited return on equity capital.)
Those contractors who invested capital initially will be entitled to a return on investment at a top rate set by law (current legal limit is 8%).

Principle 2. Only the purest provisions procurable should be supplied to members. (To assure high quality of goods supplied.)

The idea of supplying oneself with products meeting high standards does apply to the contractors’ cooperative. The contractors will be supplying themselves with parts and construction materials so there are no incentives to distribute inferior products.

Principle 3. Full weight and measure should be given. (Provide honesty in weighing.)

Like principle number two, this principle does not apply in the literal sense, but, the concept of honesty does apply to the contractors’ cooperative. There is no incentive to deceive members under any circumstances.

Principle 4. Market prices should be charged, and no credit given nor asked. (Cash trading only, no charge accounts and prevailing prices will be charged.)

The cooperative will not, at any time extend credit to members. Contractors do, however, rely heavily on credit during the course of business. To facilitate this need, a relationship will be established with a credit union or a bank to assist the contractors with credit lines. The cooperative will receive cash for member purchases and in turn pay cash for product purchases.

Principle 5. Profits should be divided in proportion to the amount of purchases made by each member. (Patronage refunds.)
Clearly, the cooperative will conform to this principal as profits will be divided amongst the membership in proportion to each member's level of patronage.

Principle 6. The principals of "one-member, one vote" should prevail in government, and the equality of the sexes in membership. (Democratic control.)

Each contractor member will be allowed one vote on all membership matters. The members will not be able to influence voting by virtue of the amount of their investment, like in a for-profit corporation.

Principle 7. Management should be in the hands of officers and a committee periodically elected. (Representative government and control of the cooperative.)

The members will elect a board of directors which is responsible for overseeing the operation of the cooperative. Members will elect officers of the board from a pool of candidates.

Principle 8. A definite percentage of profits should be allotted to education. (Provision for education in cooperation.)

There will be a strong need for education in areas of cooperation, bookkeeping, new products, etc. The board of directors will decide how much money will be allocated to the education process.

Principle 9. Frequent statements and balance sheets should be presented to the members. (Member information.)

The board of directors will decide the frequency of reports required from the manager and staff. The membership will be called upon to play an active role in the overall operation of the cooperative. Financial information will be provided to assist the members when making budgetary decisions.
Principle 10. No inquiry should be made into the political or religious opinions of those who apply for membership. (Political and religious neutrality.)

Political and religious restrictions do not belong in a cooperative and they are illegal.

Corporation Test

To establish if the proposed cooperative is in fact a true cooperative and not a for-profit corporation the following comparison is made from standards discussed in chapter 3.

Purpose and Organization

The purpose of the contractors' cooperative is to serve its members in purchasing supplies for business use, which in turn will maximize net and real income. The cooperative is owned by its member users and created for the mutual interests of its members. Stock is not traded publicly.

A standard corporation is established to serve the general public, to earn a profit for investors, and provide employment for owners of small corporations. Stock is sold on an exchange and "over the counter."

Control

The control of the proposed cooperative is by the members through the board of directors. Policies are made by the members and the board of directors. Voting is strictly limited to "one member - one vote" and generally voting by proxy is not allowed.
In standard corporations the control is by investors and stockholders through the means of quantity stock ownership. Voting is determined by the number of shares held and proxy voting is allowed.

Sources of Capital
For the contractors' cooperative all capital will have to be raised through members initially and then through the reinvestment of revenue from operations.

Corporations typically raise capital through public or private investments and through successful operations.

Distribution of Net Income
The cooperative will distribute any net income (profits) to the members in proportion to the level of patronage. Net income will be determined after all operating expenses are paid and a modest dividend is paid to members with capital investments.

Net income distribution in standard corporations is based on the number of shares held.

Stock Dividends
In the cooperative the dividend cannot exceed eight percent.

Standard corporations have no limits. The distribution depends on the amount of profits and the distribution policy.

Operating Practices
The contractors' cooperative will combine the purchasing power of individual contractors for common savings. The price charged during purchases can either reflect expected operating efficiencies or be competitively priced.
Prices charged by standard corporations to their customers are set to generate whatever the market will bear.

Initial Transactions

In the cooperative, purchases are not considered final or complete since each purchase is a conditional transaction subject to a possible refund at the end of the accounting period, if net income is achieved.

Standard corporations consider each purchase a complete transaction, not subject to any patronage refunds.

Tax Treatment

The cooperative will be responsible for local, state and federal taxes with one important exception. The cooperative can avoid taxation on patronage refunds because they are not income, merely refunds.

The standard corporation must pay all prevailing taxes including state and federal income taxes.

Conclusion

The proposed purchasing cooperative is in fact a true cooperative having satisfied the ten principles of cooperation established by the Rochdale Pioneers. Some principles will be emphasized more than others, like democratic control, patronage refunds, and cooperative education, but all will be observed. Clearly important differences exist between the proposed cooperative business structure and the standard corporation like organizational purpose, member control, and distribution of net income.
CHAPTER 5
GENERAL CONCLUSIONS

Introduction

Cooperatives are a growing type of business structure in America. The types of cooperatives are increasing and representation in different professional fields of endeavor is increasing. Generally, cooperatives began as a mechanism for survival in life, as experienced by the pilgrims. The concept is rooted in the idea of collectively helping one another for the good of the group. Today, the concept has broad business application, however, the format can still be used as a survival technique. When the large corporation establishes dominance in the marketplace, smaller businesses can band together to combat the effects of their dominant competitor.

Considerations

Cooperatives generally are created by people interested in developing an organization that benefits the members, as opposed to a standard corporation designed to benefit only shareholders and owners. As competition increases in the world, a business person might consider the cooperative business structure when planning a new venture. The principles can also be adapted to an existing company, if the desired benefits are consistent with goals and objectives. The Independent Pharmacy Cooperative serves as an example of a group of independent businesses combining purchasing power to compete with larger, well capitalized competitors. Additional opportunities for creating cooperatives exist in the real estate industry.
Real Estate Development

Individuals interested in creating a cooperative might consider all the opportunities involved, including the real estate development opportunities. Real estate is a prominent component in some forms of cooperatives. For example, a cooperative like Dunkin' Donuts has to erect warehouse facilities in each of its distributions regions. The Independent Pharmacy Cooperative needs pharmacy outlets and warehouse space to conduct business and store supplies. The proposed contractors' cooperative has a variety of real estate needs. First, the supply facility must be built. The capital can be raised by the cooperative members or a developer could develop the building and sign a long term lease with the cooperative. Second, the developer could construct the office/warehouse bays. The bays could be offered for sale as condominiums or individually leased to the contractors.

The opportunity to develop real estate can come in response to the needs of emerging or existing cooperatives or a developer can assist in the creation of a cooperative by organizing members and educating them to the benefits of cooperation. For example, if a cooperative needs a building, they might seek the assistance of a real estate developer to finance, construct and own the building, so the cooperative could enter into a long term lease. The developer could also assist in the creation of a new cooperative by recognizing a need, assembling the members, educating the members about cooperatives, and even acting as the manager. The developer could build, own and manage the cooperative's buildings while generating revenue from leases. The developer could also sell the buildings directly to the cooperative or contract to lease the buildings with an option to purchase in the future.
References and Interviews


