The Cooperative Way: A Business Model

Presentation to DMACC Faculty, Carroll Campus

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Co-op 101 for CC Curriculum

- Goal: Ensure students in Iowa's community colleges receive educational content about the cooperative business model.

- Implementation: Develop and deploy a 1 – 2 class-period module that includes learning objectives, teaching notes, lecture slides, assignments, and exam questions.

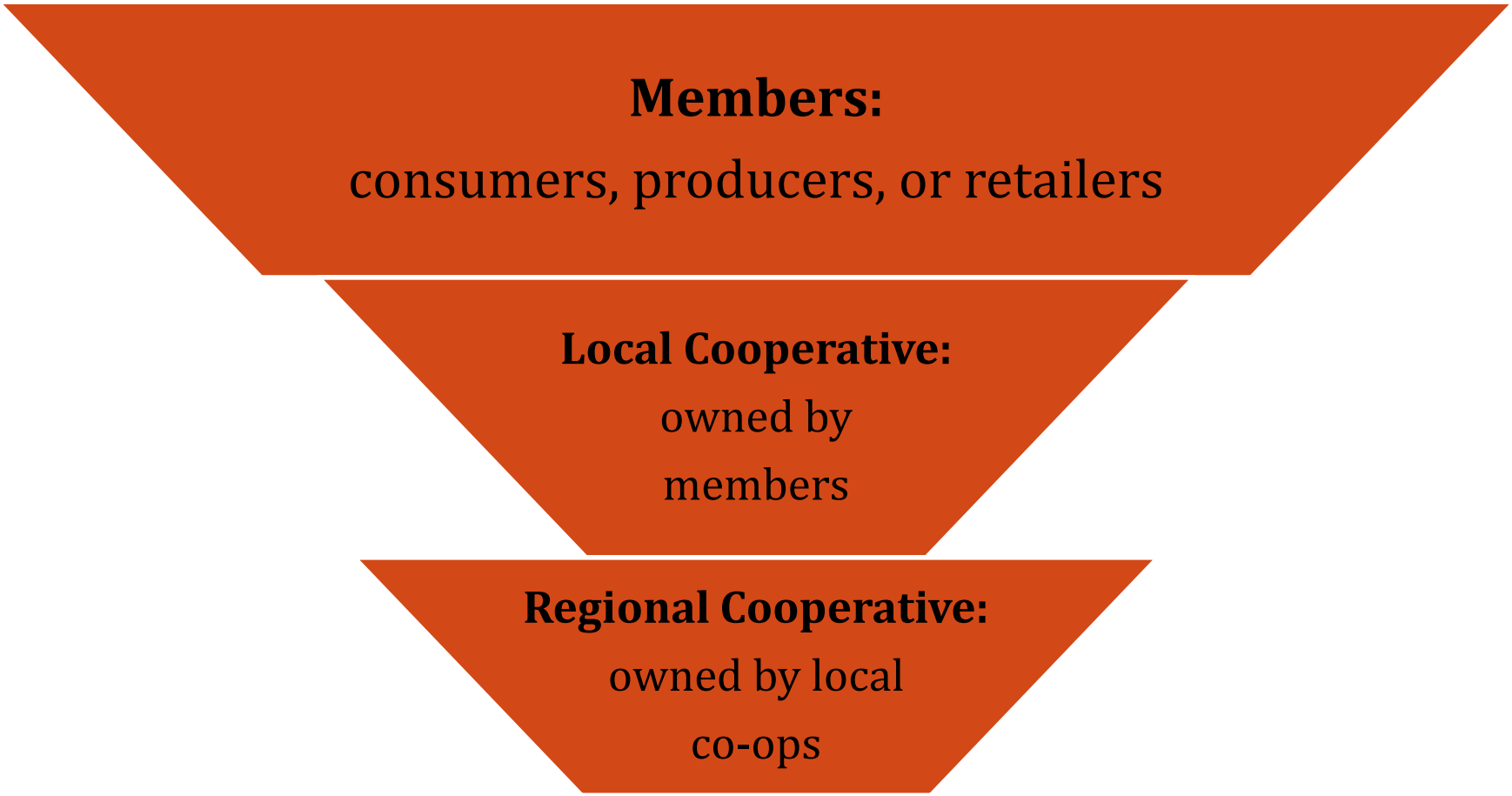
Why Do We Have Co-ops?

Historical Perspective

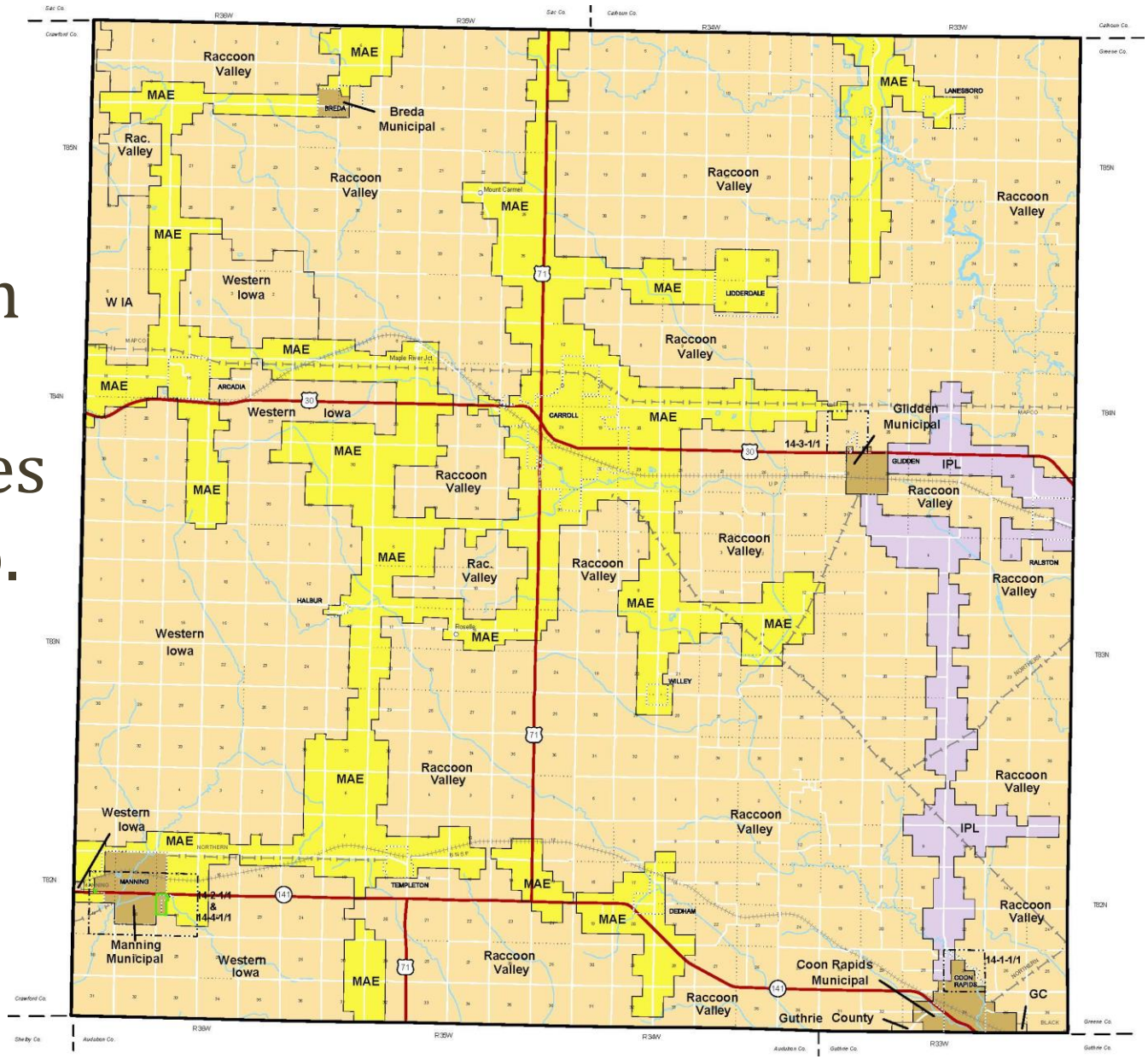
Cooperatives are…

- User-owned - members provide equity to the cooperative; economic participation, capitalization
- User-controlled – members control and oversee the cooperative's operation; governance
- User-benefitting – members have residual claim to profits and assets and they are primarily intended to benefit members; patronage

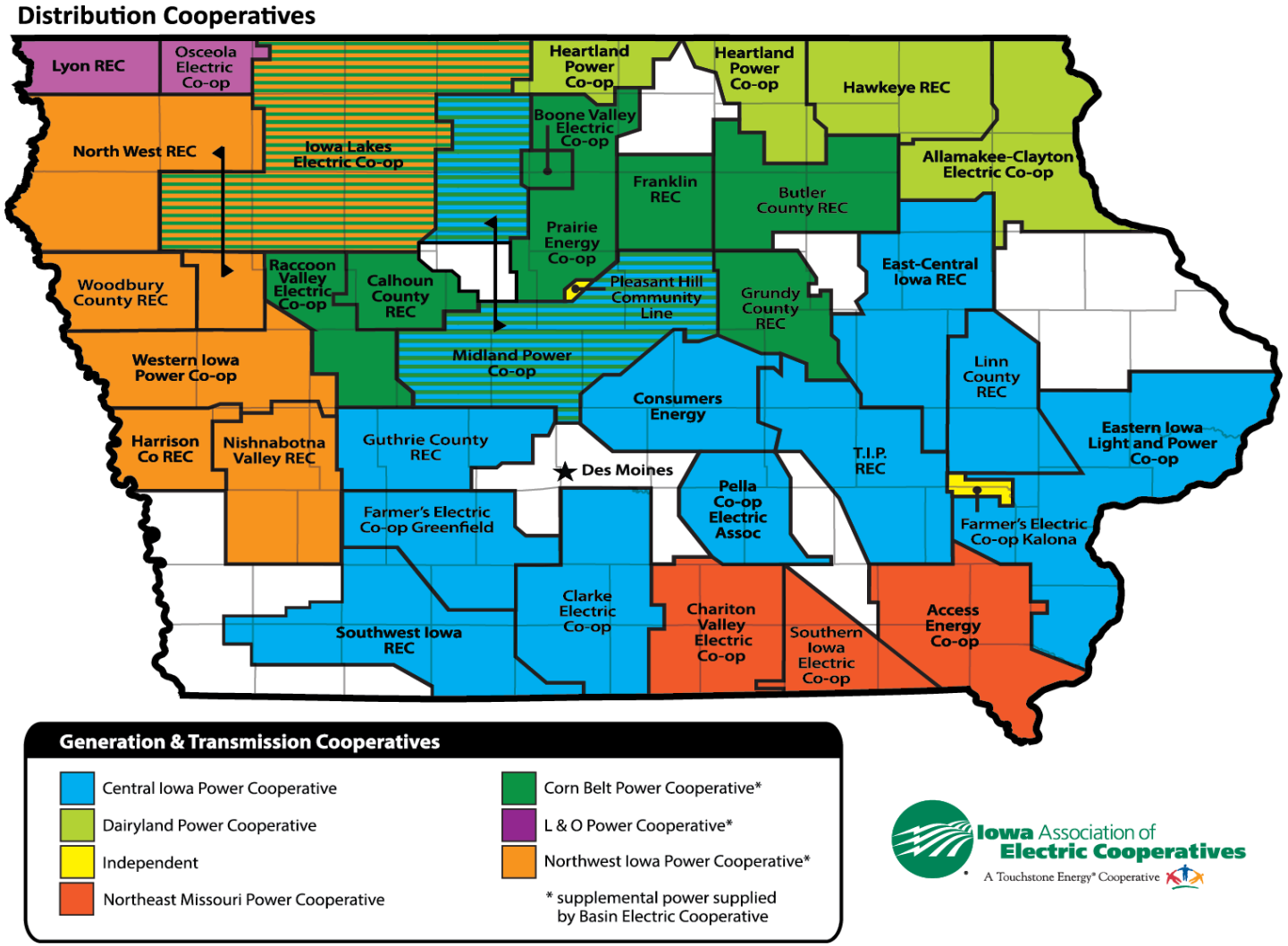
Hierarchy of Structures



Distribution (Electric) Cooperatives – Carroll Co.



G&T Cooperatives

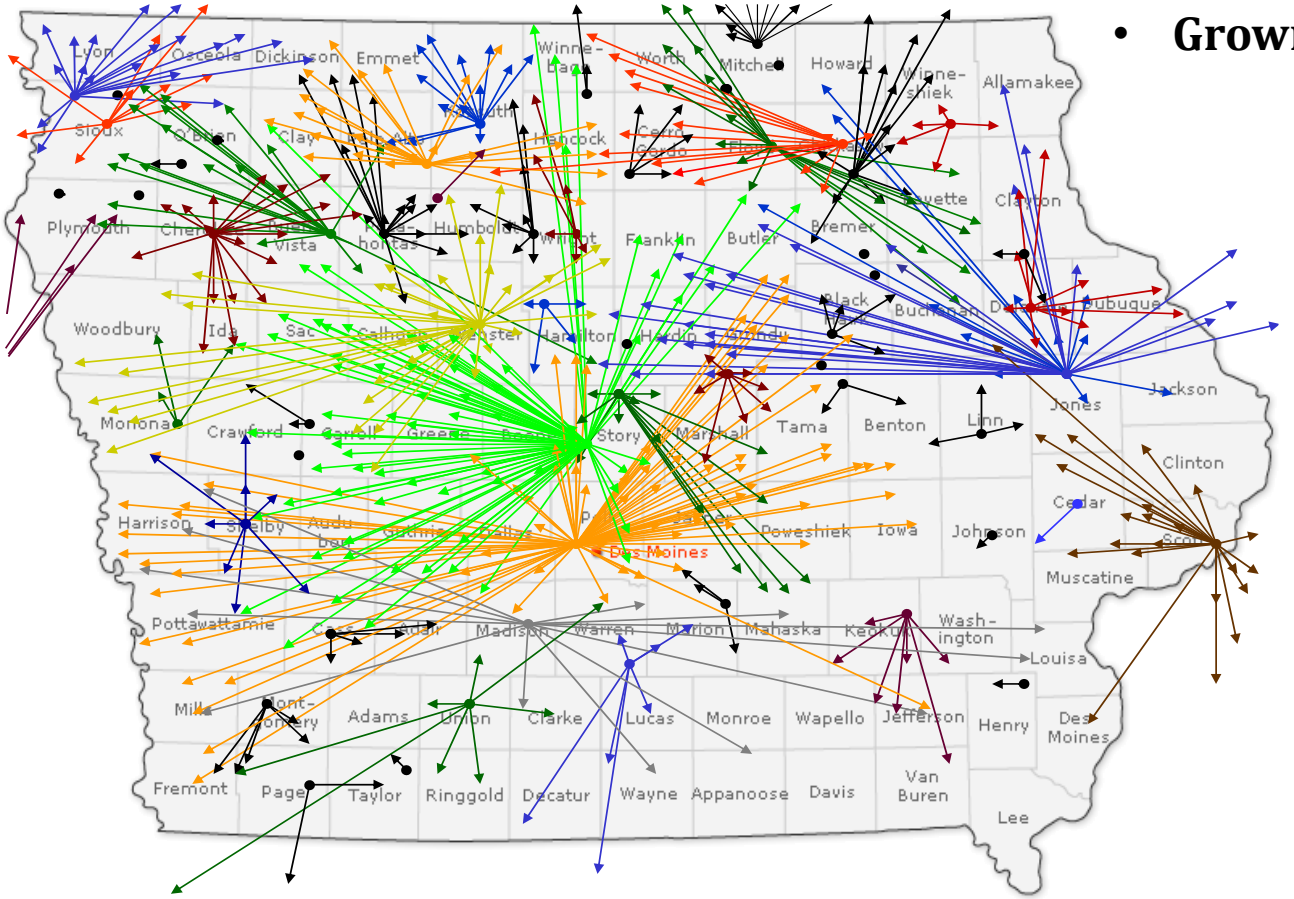


Iowa Association of Electric Cooperatives
A Touchstone Energy® Cooperative

Grain and FS in Iowa

Regional Co-ops:

- **AGP**, NE
- **CHS** , MN
- **CoBank** , CO
- **Land O'Lakes** , MN
- **Growmark,** IL



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REI
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ALMONDS

True Value
Help Is Just Around The Corner.

FS
GROWMARK

Sunkist

Swiss Valley
FARMS
Farmer Owned with Pride

HUXLEY
COMMUNICATIONS

AP

NEW
PIONEER
food co-op

Farm Credit Services
of America

NATIONAL GRAPE CO-OP
Welch's

NAPA

VILLAGE
COOPERATIVE

LAND O'LAKES
Where simple goodness begins.®

Florida's
Natural

fresh local organic
WHEATSFIELD
CO-OP
since 1974

Southern Minnesota
Beet Sugar Cooperative

SueBee
HONEY

Who Runs The Cooperative?

(Governance and Ownership)

Cooperatives must be profitable

Profitability is necessary for…

- Financial sustainability of the cooperative
- Ability to reinvest in assets and productive resources
- Ability to revolve equity
- Funds for growth

“Excess” profits (savings) are returned to members!

Patronage / Capital Credits

Each year, after all of the cooperative's bills have been paid and all expenses considered, the amount of money left over is called a **margin**.

Excess margin is **allocated** to the members. This is called **patronage.** Each member's allocation is in relation to their transactions with the cooperative that year.

Excess Income is returned (Patronage)

Patronage is…

- …a cooperative's adherence to the "service at cost" principle, and
- …a distribution of co-op profits (aka "savings") to those who did business with the cooperative.

How?

- Cash
- Equity (retained at the co-op) in your name – to help keep costs to the member lower and provide additional services

Example: You Are a Farmer…

…with 500 acres in corn. You are the poster-child member, buying all your inputs and selling all grain through the co-op.

- Bushels marketed: 200 bu/acre
- Inputs purchased: $308.35/acre

The co-op has released their annual report and announced patronage rates for the year:

- 3.70 cents per bushel of grain
- 3% of agronomy business

They will pay 60% as cash and the rest (40%) as retained allocated equity (this is the capitalization function).

Patronage Example

Total Patronage
={(200 bu/a * $0.037/bu) + ($308.35/acre * 3%)}*500
= $8,325.25 on 500 acres

Members get some as cash that year:

- 60% * $8,325.25 = $4,995.15

The co-op retains the rest as equity in the member's name:

- 40% * $8,325.25 = $3,330.10

The member pays tax on the income, but the co-op does not:

- 18% * $8,325.25 = $1,498.55

Then What?

Eventually the member gets that equity back

When? Depends on profitability of cooperative! Patronage is **retired** (paid in cash or credit to a member) after the Board determines that the financial condition of the cooperative is sound enough to do so.

- If good profitability: sooner than later
- If not profitable: maybe never
- On average in Iowa ≈ 12 years

Who Owns The “Stuff”?

MEMBERS jointly own the assets, and they benefit everyone (via service) and also through patronage to those who use it

- Electric: trucks, turbines, solar panels, etc.
- Grain & farm supply: Grain bins, dryers, feed mills, inventory, etc.
- Telecommunications: poles, trucks, lines, etc.

Big picture: what do you or does society need that isn't currently provided on scale or for which there are significant barriers to getting it?