



HOW TO START A COOPERATIVE

A QUICK GUIDE TO STARTING
A BUSINESS USING THE
COOPERATIVE MODEL



A GUIDELINE FOR SETTING UP A COOPERATIVE BUSINESS IN BERMUDA



What is a cooperative?

A cooperative is a for-profit business that is jointly owned and democratically controlled by its members. Additionally, a cooperative is based on the 7 cooperative principles of

- (i) voluntary & open membership;
- (ii) democratic member control;
- (iii) member economic participation;
- (iv) autonomy & independence;
- (v) education, training, and information;
- (vi) cooperation among cooperatives; and
- (vii) concern for community.

There are five main types of cooperatives:

- **Consumer:** owned by consumers who buy goods or services from their cooperative
- **Producer:** owned by producers of commodities or crafts who have joined forces to process and market their products
- **Worker:** owned and democratically governed by employees who become co-op members

- **Purchasing:** owned by independent businesses or municipalities to improve their purchasing power
- **Hybrid:** a combination of co-op types, where people with common interests band together.

Why form a cooperative?

People organize cooperatives for different reasons, such as:

- (a) to improve bargaining power;
- (b) to reduce costs;
- (c) to obtain products and services;
- (d) to create new and expand existing market opportunities;
- (e) to improve the quality of products or services;
- (f) to increase income; and
- (g) because they support the idea of cooperatives and the cooperative principles.

Key Steps to Take!

1 Determine the Need

- Any business, including cooperatives, exist to fulfill an economic need – in other words, what is the problem the cooperative will look to solve? What will the business be?

- Form a small group of at least 3 to discuss the business idea and the potential use of the cooperative model for it.
 - Some questions to ask:
 - Is there a need the business can solve?
 - Could the business run as a cooperative?
 - What information about cooperatives is available?
- Visit www.bedc.bm where the ECD unit hosts a valuable resources.**
- Who can serve as an adviser for the group?
- HINT – The ECD Unit can!**
- Who else might be interested in being a member of the cooperative?
 - How should we approach potential additional members of the cooperative?
- If you decide there is a business opportunity here, and that a cooperative offers a solution, then you can plan a larger meeting with potential members. Take the opportunity to research cooperatives and the business idea some more and make a presentation to this larger group.

2 Hold an Exploratory Meeting with Potential Members!

- If after Step One you decide there is potential for a cooperative, you can organize a larger meeting with potential members to explore it further.
- Publish the date, time, and place in advance to the potential members.
- The leadership group (from Step One) should select a chair to conduct the meeting and develop the agenda. Agenda items can be:
 - What is the business need?
 - Possible solutions
 - Cooperative principles and terminology.
 - Advantages and disadvantages of a cooperative.
 - Financial and other commitments expected of members.
 - Cooperative organisation and feasibility analysis process.
 - Questions!
 - Any Other Business
- Remember, you can ask the ECD Unit for help with this. While we provide some additional resources on these matters, we can also come and help present at this meeting!

3 Select a Steering Committee!

- This can be done during the meeting in Step Two.
- Steering committee members should have both an interest in the cooperative and sound business judgement. Experience with organizing is also helpful!
- Often the Steering Committee members become the cooperative's incorporators and may serve as its first Board of Directors.
- The Steering Committee has two primary jobs:
 - Decide on the feasibility of the cooperative
 - Will the proposed cooperative succeed?
 - Will it be valuable to members?
 - **The ECD Unit can help with this feasibility analysis!**

- Prepare an initial specific, detailed business plan for the proposed cooperative.

▪ The ECD Unit can help with developing this business plan!

- In addition, the Steering Committee should also conduct a member-use analysis and an initial market analysis
 - **Members-Use Analysis** – This involves learning about the potential members and what the cooperative can do for them. It should seek to explore four areas:
 - **Members' Needs** – The cooperative is formed and operated for the sole purpose of meeting members needs, so find out what those needs are!
 - **Anticipated business volume** – The cooperative must identify the minimum volume to operate as a business to plan for expenses.
 - **Location and business or service characteristics of prospective members** – Where, how, and when the cooperative delivers its services is a key consideration.
 - **Opinions of members** – How do potential members feel about cooperatives and participation in one? Member participation in decision-making activities is important for success!
 - **Initial Market Analysis**
 - This should be done only after the member-use analysis is completed and reviewed by the Steering Committee. Depending on the results of that analysis, the Steering Committee must decide whether to proceed with the project.
 - If the decision is to proceed, then the initial market analysis is conducted to determine if the proposed cooperative is viable.
 - This analysis will identify and examine market conditions to provide insight into appropriate activities for the cooperative, volume, facility, technological needs, and other relevant factors.



4 Second Member Exploratory Meeting!

- In this meeting, the Steering Committee will present the results of the research conducted during Step Three.
- Based on the information presented, the members will vote on whether to continue or abandon the project.
- If they chose to continue, then the next step is to conduct a more comprehensive feasibility analysis.
- Also, at this time, members may be asked to invest earnest money^[1] to demonstrate their commitment to the cooperative and to cover further analysis and organizational costs.

5 Comprehensive Feasibility Analysis

- This is often done by an experienced practitioner and will look at issues of management, marketing, technical, economic, and financial feasibility, and provides an outline of the entire cooperative venture in one document.
- This will help the Steering Committee determine if the proposed cooperative is feasible and provide the foundation for the business plan if a decision to proceed is made.

6 Third Member Exploratory Meeting!

- In this meeting, the Steering Committee presents the comprehensive feasibility analysis to the members and provides their recommendations on whether to proceed.

- If the decision is to proceed, then the next step is to prepare the detailed business plan and draft the legal documents for incorporation, as well as draft by-laws.

7 Business Plan & Incorporation Documents!

- Prepare a business plan!
 - This further develops the business plan from Step Three. This is sometimes done by someone with experience in this area as well as with cooperatives.
 - The plan is developed from the foundation provided by the previous research and the comprehensive feasibility analysis.
 - It provides an organizational map for the new cooperative to follow as it begins its operations!
 - ***The ECD Unit can help you with this!***
- Draft By-Laws
 - The by-laws will state the purpose and scope of the cooperative, and how the cooperative will be governed.
 - These should be in line with all laws around this and relevant to incorporation.
 - ***The ECD Unit can provide you with a template!***
- Draft the Incorporation Documents
 - There are various forms that a business must complete to legally incorporate.
 - At this stage you are simply filling them out – don't submit them until after Step Eight!

8 Fourth Exploratory Member Meeting!

- In this meeting, the Steering Committee presents all their work from Step Seven, along with their recommendations on them.
- The members have an opportunity here to amend the by-laws, make any adjustments to the business plan, and review the incorporation documents.
- The members should vote one more time on whether to form the cooperative. If the vote is affirmative, the members should then vote to confirm the by-laws and the business plan.
- Following an affirmative vote, the Steering Committee should formally submit the incorporation documents to legally form the cooperative!

9 First Annual General Meeting of the Cooperative!

- At the first AGM of the cooperative, the members have two very important responsibilities:
 - Formally approve the by-laws.
 - Elect the Board of Directors.
- Steering Committee members are often board candidates, however other members may also be elected to these leadership positions.

10 First Board of Directors Meeting!

- The first Board of Directors meeting should focus on:
 - Board officers
 - Committee appointments
 - Executing the business plan.

[1] Earnest money is an amount of money put down to show good faith and seriousness/commitment to the endeavor. It can help with initial costs for getting the cooperative off the ground!

- Additional agenda items may be:
 - Arranging debt capital.
 - Conducting a membership drive.
 - Establishing manager qualifications.
 - Conducting a manager search.

11 Acquiring Capital!

- The Board of Directors is responsible for arranging adequate capital.
- Capital may be raised by members purchasing stock (equity) and borrowing funds (debt) from a lending institution. **[The ECD Unit can help with this too!]**
- Members must invest or pledge sufficient capital in the business to demonstrate commitment to the cooperative's success.
- Exact amounts will depend on activity and lender requirements.
- Projects cash-flows and financial statements from the business plan are important in determining capital needs and arranging for debt capital.

12 Hire a Manager!

- One of the most important duties of the Board is to hire a qualified manager who is responsible for the day-to-day operations of the cooperative.
- In general, the Manager handles the day-to-day operations and reports to the Board of Directors, and in between Annual General Meetings, the Board oversees the management of the cooperative via the Manager.

13 Hire Employees, Acquire Facilities, Begin Operations!

- The manager hires capable employees and advises the Board on what facilities and equipment to acquire, within the budget and operation guidelines established by the Board.

14 Second Annual General Meeting of the Cooperative!

- Congratulations – you've set-up a cooperative and completed your first year of operations!
- The AGM is the supreme governing body of the cooperative, and the Board of Directors presents to the members how the previous year of operations went and propose an outline of the next years plans. The members vote on this plan (or motions from the floor) and elects the Board of Directors for the next year!

Key Points to Remember!

Experience has shown that the chances of success for a new cooperative can be improved by doing the following:

- Clearly identifying the economic need.
- Reaching agreement on the cooperative's mission.
- Developing good leadership.
- Gaining the commitment of members to do business with the cooperative.
- Following sound business practices.

Cooperatives can be harder to set-up because they involve democratic agreement (see how many members meeting there are in the above steps before formally forming the cooperative!), which takes time. However, once cooperatives are formed, they are known to be versatile models that are more resilient than other business models. Importantly, they also support local economic, business and community development!



The background of the entire page is a photograph of three women sitting at a wooden table in a meeting. The woman on the left, with curly hair and wearing a dark top with a "KAF" logo, is looking towards the right. The woman in the middle is wearing a blue polka-dot blazer and is also looking right. The woman on the right is wearing a blue blazer and is looking down at something in her hands. There are papers, a laptop, and a tablet on the table.

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