

STEPS IN FORMING A SUSTAINABLE FORESTRY COOPERATIVE

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Cooperatives are businesses that are owned and democratically controlled by the people who use their services.

Co-ops are different from for-profit businesses that are owned by one or more investors whose intent is to make a profit by selling goods and services to other businesses and individuals. Co-ops are also distinct from non-profit organizations which are intended to provide educational, charitable and other services and must reinvest any profits they make in their own operations or donate them to other non-profits or to government agencies.

This brochure focuses on sustainable forestry cooperatives that are owned and controlled by woodland owners. These forestry co-ops can:

- Provide reliable information about woodland management.
- Develop environmentally responsible woodland management plans certified by the Forest Stewardship Council.
- Provide consultation and training for protecting and restoring wildlife habitats and bio-diversity.
- Provide forest management assistance and training in areas such as timber stand improvement, logging safety, habitat restoration and tree planting services.
- Make educational materials and opportunities available to co-op members.
- Provide assistance in harvest planning, implementation and monitoring.
- Develop manufactured, value-added wood products.
- Find and develop markets for timber and other forest products.

There are ten main steps in forming a forestry cooperative. Note that these steps are not a "recipe". Every co-op charts its own path from the idea stage to an operating business. The following steps are intended to be helpful guidelines, not rules.

1. Establish a Steering Committee

In some cases, a group of people who share an idea for a cooperative forms a steering committee and develops a plan and a timetable for researching and developing a co-op. In other cases, an initial organizing group convenes a meeting of potential co-op members to test out the level of interest in the co-op idea. A steering committee is usually comprised of five to ten people, and is formed from participants in this meeting.

Although the steering committee is not a formal board of directors, it makes sense for it to operate in a somewhat formal manner. Traditional positions on a board include a chair (or a rotating chair), a secretary and a treasurer (or one person willing to play both roles), to record minutes of meetings, keep track of other actions taken by the group, and to handle finances. Additional people can take more general or specific roles.

2. Initiate Fundraising

Raising small amounts of money from potential co-op members and others can help the steering committee begin to develop the co-op. Several forestry co-ops have raised funds through \$100 non-refundable, "charter membership" fees. In this early stage, membership fundraising can:

- Cover initial costs for mailings, phone calls, travel expenses, legal fees, feasibility research, etc.
- Serve as "matching funds" for grants from foundations and government programs.

Member support shows funders that people are serious about developing a co-op.

These funds should be raised with a disclaimer stating that their purpose is to determine the feasibility of forming a co-op and that charter members will not necessarily receive any direct benefits from their membership fees.

3. Draft Articles of Incorporation and Bylaws

In order to conduct business, a cooperative has to be incorporated under the appropriate state statute. Most states have statutes specifically for cooperatives. Others have more general corporate statutes. We have examples of bylaws and articles of incorporation available on request. The steering committee should select legal counsel to draft or review the articles of incorporation and bylaws. When the co-op is incorporated, the steering committee becomes an "interim board of directors".

The articles of incorporation describe the kind and scope of the cooperative's business and must be filed with the secretary of state. There is a small fee -- usually less than \$100 -- for filing. The bylaws are an internal document that describes the basic method of operation of the co-op (who can be members, how the board of directors and officers are elected, how decisions are made by the board and members, etc.) A co-op can start out with very basic interim bylaws and refine them after the business plan has been developed.

It may seem odd to incorporate a co-op before the steering committee is even sure that all the necessary pieces are there to get the co-op launched. Why not wait until the business plan is completed and the decision to launch the cooperative has been made? The steering committee's decision to incorporate early on is based on their consideration of several questions:

- Is the co-op planning to raise funds prior to completion of the business plan?
- Are there grant and loan programs to which the steering committee is interested in applying that require the co-op to be incorporated?
- Are some of the steering committee members concerned about legal liability issues that would be lessened if the co-op were incorporated?

If these issues are of concern to the steering committee, the co-op should incorporate before the business plan is completed.

4. Recruit Members

Laying the groundwork for the co-op's membership base needs to begin from the time the steering committee first meets. Many newly forming co-ops: hold meetings for potential members; sponsor forestry events such as "walks in the woods" to learn about responsible forestry, low impact harvesting or safety concerns; conduct surveys; mail organizing updates; and collect charter membership fees.

All of these activities provide a good indication of the level of interest in the co-op and keep people informed about the development process. Thus, when the time comes to make a long-term commitment, members will be ready to act without a lot of last minute promotion and education.

5. Conduct a Feasibility Study

The purpose of a feasibility study is to examine critical opportunities and obstacles that might make or break the formation of the cooperative. The steering committee should either conduct a feasibility study itself or work with a consultant to carry out the study. Feasibility studies can vary from a brief review of the pros and cons of proceeding with the co-op to a detailed analysis.

The critical issues to be reviewed in a feasibility study include: the number and interest level of potential members; market issues (Can the co-op get better prices, better quality or better services than potential members currently get through other means?); operating costs; and availability of financing.

If insurmountable obstacles are discovered in the feasibility study, the development of the cooperative can be abandoned or shelved before too much time or money has been expended.

Feasibility studies can range from very low cost to several thousand dollars. Local or state governments or foundations may provide financial or technical assistance in carrying out a feasibility study. Initial payments by potential co-op members may also be used to help cover the cost of a feasibility study.

6. Prepare a Business Plan

If the feasibility study results are favorable, the steering committee carries out or commissions a detailed business plan. The business plan serves two primary purposes:

- to provide a blueprint for the development and initial operation of the co-op; and
- to provide supporting documentation for potential members, financial institutions and other investors.

A typical business plan includes:

- an executive summary,
- a description of the company,
- a market analysis,
- a marketing and sales plan,
- a description of the organizational structure and key personnel, and
- a financial analysis.

7. Hold a General Membership Meeting

The first general membership meeting is convened when the steering committee decides that enough members have joined the co-op and the business planning process is far enough along so that members can decide whether it makes sense to pursue the long term development of the co-op. The first general membership meeting often takes place six months to a year after the formation of the steering committee. At this meeting, the members:

- vote on the co-op's bylaws,
- elect a board of directors,
- vote on a plan for the development of the co-op and
- conduct other business.

This meeting marks the transition from a steering committee and an interim set of bylaws to a formally elected board and formally approved bylaws.

8. Secure Financing

Cooperatives vary greatly in the amount of capital they need to begin operating. The business plan should include the amount and type of financing needed by the co-op and a strategy for getting it. The board of directors and its advisors are responsible for implementing this strategy. Virtually all co-ops require some level of member financing, usually in the form of stock purchases or membership fees. Member financing not only provides equity for the co-op, it also provides a financial base that makes other investors, particularly banks, feel more secure in investing their funds in the co-op.

In addition to equity from members, most co-ops need to borrow money to get started and to maintain their operations. Loans can come from banks and other financial institutions (including several national banks for cooperatives that have federal charters specifically to provide such loans). Other loan sources are members, local, state and federal government programs, and various private for-profit and non-profit organizations.

9. Recruit Personnel

The recruitment of personnel is normally listed as the last step in the co-op formation process because the co-op is not a definite "go" until the necessary financing has been lined up. However, some co-op start-ups identify key potential personnel much earlier in the process, for example in the feasibility study or business planning stages. One or more key persons can be hired as consultants at an early stage, sometimes with the intent that they will work for the co-op once it is formally established. This approach also has the effect of making investors feel more comfortable about financing the co-op because proposed management staff have been identified. For some lenders, competent management is the most important thing they look at in making a loan decision.

10. Begin the Operation of the Cooperative

With financing and key personnel in place, the co-op is ready to carry out its business plan. Remember that the business plan is not a rigid set of rules that should be adhered to *no matter what*. It is a tool to help the cooperative start-up and operate effectively. If key financial resource or marketing issues change, the business plan should be adapted accordingly. Business planning is a process.

Conclusion

The ten steps in forming a co-op listed above are intended to provide a general overview of the co-op organizing process. Remember that the start-up of each co-op is unique so the steps outlined here should not be used as a rigid blueprint, but rather as a set of suggestions to be adapted as needed.

It is often useful to seek out professional assistance in forming a cooperative. Cooperative developers, legal counsel, financial experts and forestry professionals can save a steering committee time and help it to avoid costly mistakes.

Cooperative Development Services and the Community Forestry Resource Center have established a partnership agreement to assist woodland owners in the Upper Midwest to form sustainable forestry cooperatives. The University of Wisconsin Center for Cooperatives has also agreed to provide educational and development services to forestry co-ops in Wisconsin. We have grant funds that allow us to provide early stage assistance free of charge. We can also help woodland owners to identify public and private sources of technical and financial assistance. In addition, we provide assistance with all phases of the co-op development process on a fee-for-service basis.

For further information, please contact:

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