

Collective Entrepreneurship through Cooperatives

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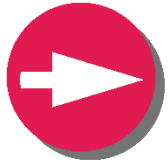


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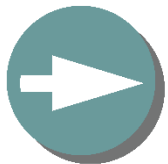
AGENDA



What is a Cooperative



Types of
Cooperatives



Cooperative Principles
and Governance



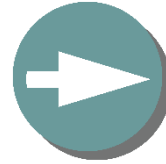
Why form a
cooperative



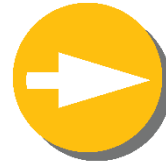
Comparing
Business Types



Steps in
Development



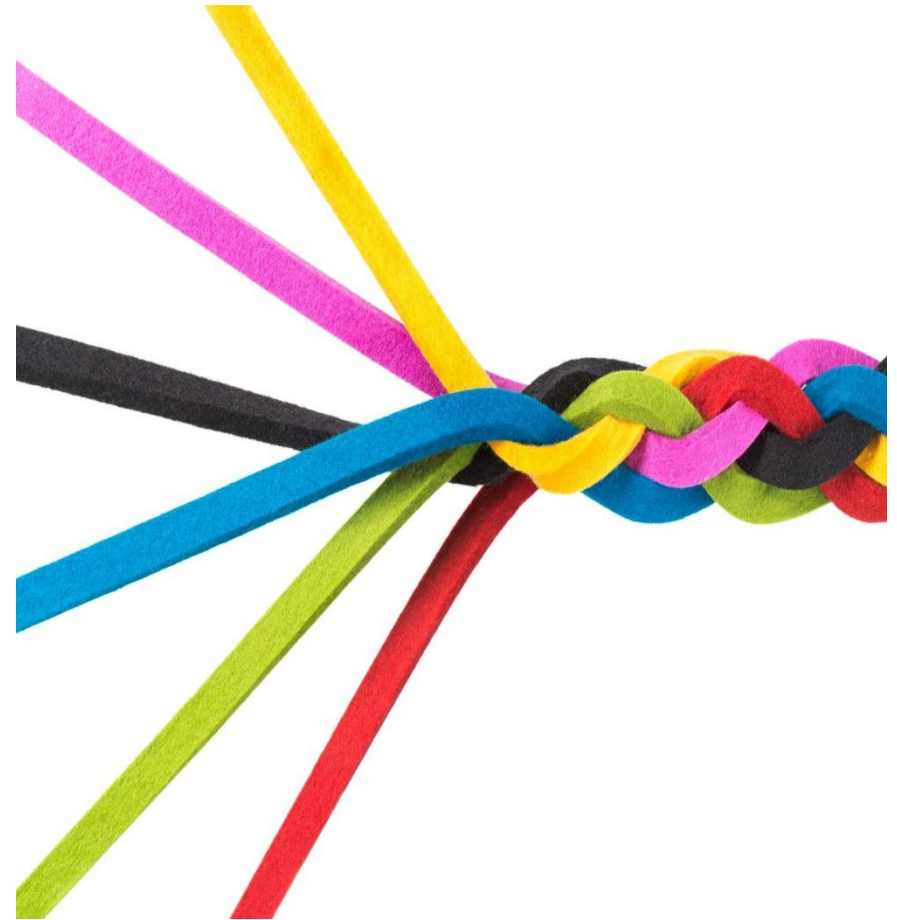
Legal
Considerations



Conversions

What is a Cooperative?

- ❖ A Cooperative is a business that is *DEMOCRATICALLY OWNED* and *CONTROLLED* by the people who use or produce its services.



What is a Cooperative?

❖ Members who use the cooperative *own* their co-op because they finance it in a variety of ways.

- ❑ *Membership Equity*
- ❑ *Membership Fees*
- ❑ *Retained Patronage*
- ❑ *Income producing labor*



What is a Cooperative?

- Members *democratically control* their cooperative by exercising the voting rights that come with membership.



Types of Cooperatives



Consumer Co-ops

Purchasing & Shared Services Co-ops



Multi Stakeholder Co-ops



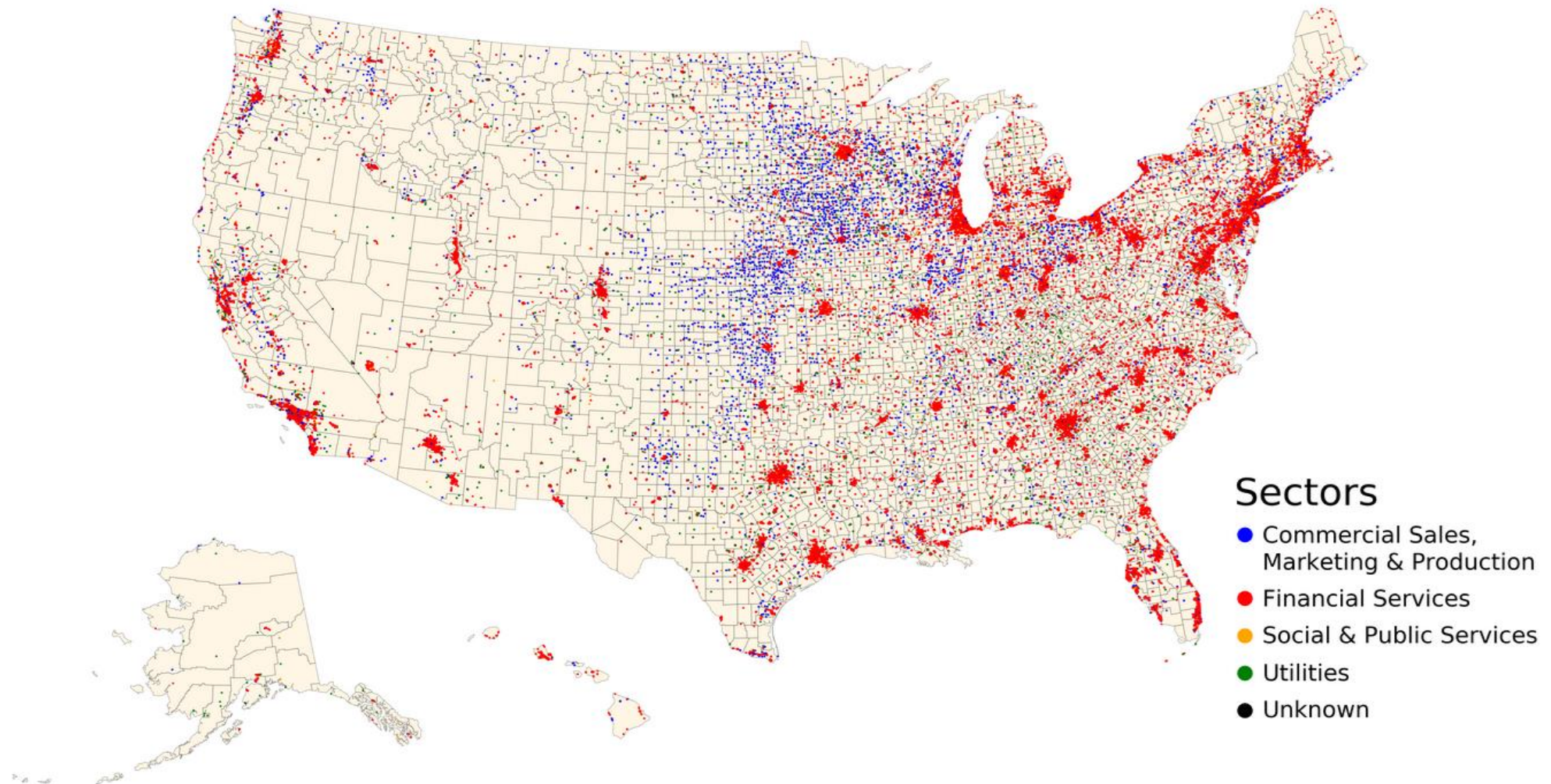
Producer Co-ops



Worker Co-ops



Cooperative Locations: Sectoral Composition



Source: *Measuring the Cooperative Economy*, UW Center for Cooperatives

Why form a Cooperative



Members	Cooperative
Have a common need	Provides service, product, or workplace that meets common need
Have limited resources individually	Pools resources to increase scale and feasibility
Share values	Legal entity that has guiding values



Source: Cooperatives in Wisconsin: The Power of Cooperative Action, by UW Center for Cooperatives

LEGISLATIVE AUTHORITY

WI Chapter 185.31: *All powers of the cooperative shall be exercised by or under the authority of, and the business and affairs of a cooperative shall be managed under the direction of, **the board**, except as otherwise provided in the chapter.*

<https://docs.legis.wisconsin.gov/statutes/statutes/185>



Cooperative Governance



1

MEMBERS

Elect the board and approve changes to the bylaws

2

BOARD OF DIRECTORS

Sets policy, selects and supervises management

3

MANAGEMENT

Carries out policies, hires and supervises employees

4

EMPLOYEES

Carry out the tasks needed to operate the cooperative

COMPARING BUSINESS STRUCTURES

The legal structure of a business defines ownership, liability, earnings distribution, and control. The following table compares cooperatives to other types of business structures.

	Cooperative Corporation (Chapter 185)	Unincorporated Cooperative Association (UCA) (Chapter 193)	Corporation (C Corporation or S Corporation)	Limited Liability Company (LLC)	Partnership	Proprietorship	Non-Profit
Who are the owners?	Members (individuals or entities) *	Members (individuals or entities); may include both patron and investor classes	One or more shareholders; (individuals or entities).(An S Corporation is limited to 100 shareholders)	One or more individuals who are members	At least two individuals or entities	Individual proprietor	No ownership
What are membership requirements?	Determined by bylaws. Usually one share/fee per member. Bylaws may include other requirements with other rights attached.	Determined by bylaws.	One share of stock, with rights and privileges attached to it determined by the articles of incorporation, bylaws, shareholder agreement, and applicable law.	At discretion of LLC members	At discretion of partners	At discretion of owner	Membership fee may be required to participate.
Who controls?	Board of Directors elected by patron members.	Board of Directors elected by patrons, and investor members if any	Board of Directors elected by shareholders	LLC members	Partners	Proprietor	Board of Directors
What is the primary purpose of the business?	To meet member needs for goods or services	To meet member needs for goods or services, earn a return on member investment	To earn a return on owner investment	To earn a return on members' investments; to provide employment for members	To provide employment for partners and a return on partners' investment	To provide employment for owner and a return on owner's investment	To provide services or information
How is the business financed?	Sale of stock/shares to members and outside investors; retained profits	Sale of shares to patron and nonpatron members; retained profits	Sale of shares; retained profits	LLC members' investments; retained profits	Partners' investments; retained profits	Proprietor's investment; retained profits	Grants, individual contributions, fees for services
Who receives profits?	Members in proportion to their use, preferred shareholders in proportion to investment	Patron members in proportion to their use; patron and nonpatron members in proportion to their investment	Shareholders in proportion to investment	LLC members in proportion to investment or by agreement	Partners in proportion to investment or by agreement	Proprietor	Retained within the organization
Who pays income taxes on the profit?	Members on qualified profit allocations profit and cash distributions**; co-op pays on nonqualified and unallocated profits	Members pay on individual rate; or elect to be taxed as cooperative corporation	C corp. pays on profits, shareholders pay individual capital gains rate on dividends; S corp. shareholders pay individual rate on profit share and capital gains	LLC members pay individual rate, or can elect to be taxed as a corporation	Partners pay individual rate	Proprietor pays individual rate	Not applicable; tax exempt
What is the owner's legal liability?	Limited to members' investment in the cooperative	Limited to members' investment in the UCA	Limited to shareholder's investment in the corporation	Limited to LLC member's investment in the LLC	Unlimited for general partners, limited to limited partner's investment in the partnership	Unlimited for owner	Limited to assets of the organization

*Preferred stock shareholders may include nonmembers, and may only vote on limited issues such as dissolution. As a group, preferred stock shareholders do not set policy. Only members have full voting rights and can vote for the board of directors.

** Members of personal consumer co-ops do not pay taxes on patronage allocations that follow certain IRS guidelines.

There may be exceptions to what is summarized here. See statutes for further information.

Prepared by the University of Wisconsin Center for Cooperatives. Updated January 2019.

Steps in Developing a Startup Cooperative



GATHER: Key stakeholders decide if idea is worth pursuing.



ASSESS: Is the business likely to succeed?



PLAN: Create your framework for moving ahead



INCORPORATE: Create your legal and democratic structure



CAPITALIZE: Raise necessary capital



LAUNCH: Run your business!

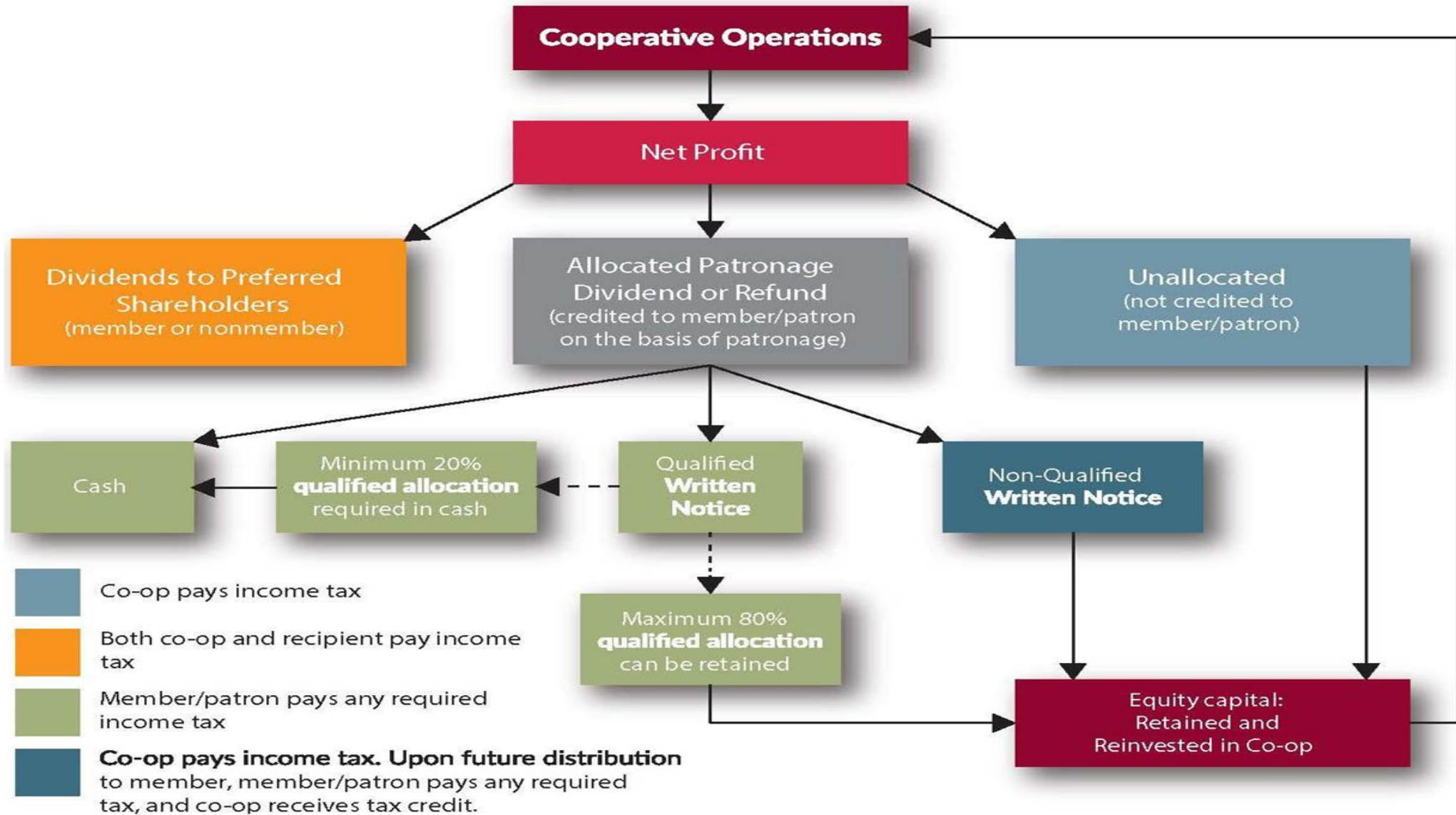
Financing Your Cooperative

- Initial Financing = Member Capitalization + Bank Debt
 - Limits on Outside Investment (max return + subordination to member capital)
 - Cannot own voting stock
 - Dividend to Investor capped at 8%
 - Company Financing Is Where Things Get Complicated
 - Member Capital Base Plan: members required to invest based on patronage
 - Retained Equities: Company keeps Patronage Dividend as “retained earnings” and pays back (like a revolving debt obligation)

Tax and Legal Considerations

- Ch 185 taxed like C-Corps, EXCEPT
 - Patronage Return is tax-free to co-op
 - Specific requirements on how these are paid to keep tax-exempt status
 - Permits “Written Notice of Allocation” – still requires at least 20% be distributed as cash
- Ch 193 Coops taxed as LLCs (partnerships)

Income and Taxation





COOPERATIVE CONVERSIONS: A VIABLE SUCCESSION PLAN

SMALL BUSINESS SUCCESSION OPTIONS

BUSINESS CONTINUES

Keep it in the family: Direct sale, gifting, or trusts

Sale to outside interest: Direct sale, jobs are maintained

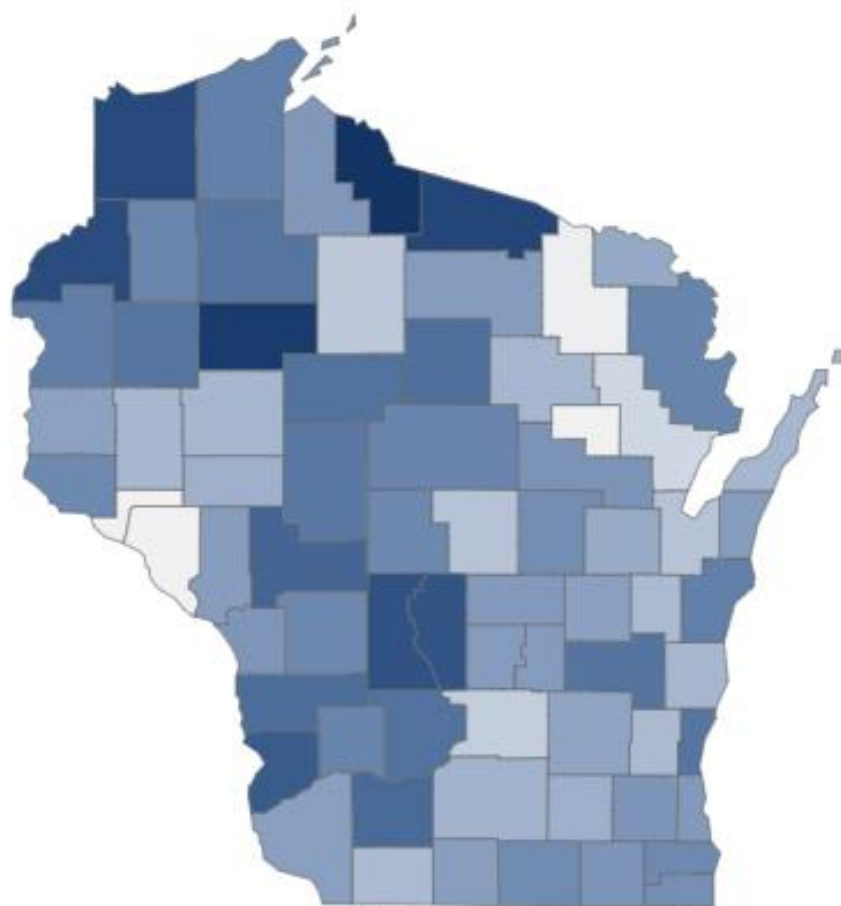
Management buyout: Direct sale, may also be combined with an ESOP

Sale to employees: Most often in the form of an ESOP or worker co-op

BUSINESS CLOSES

Liquidation: Results in loss of jobs, services, and tax base

Sale to outside interest: New owner may consolidate operations and eliminate jobs



Industries

hover over a donut slice to see data

- Accommodation & food services
- Admin & waste management
- Arts & entertainment
- Construction
- Health care & social assistance
- Manufacturing
- Other industries
- Professional services
- Retail trade
- Transportation & warehousing
- Wholesale trade

% of firms owned by people aged 55+

hover over a county to see %

click to see relevant data



Note: The Census ABS data source at the state level is based on the number of respondent firms while the QCEW at the county level is based on percent of establishments. The data may not be available or accurate for some counties, especially those with small populations. See methodology for further details.

[Methodology >](#)

[Source notes >](#)

BENEFITS OF EMPLOYEE OWNERSHIP

- Financially rewarding exit with potential tax benefits for selling owner(s)
- A lasting legacy for the selling owner(s)
- Rewards employees for their role in building the business
- Has the potential to improve business performance and increase employee engagement, productivity, and retention
- Retains services, jobs, wealth, and tax base in the local community
- Over 100 studies across many countries indicate that employee ownership is generally linked to better productivity, pay, job stability, and company survival.



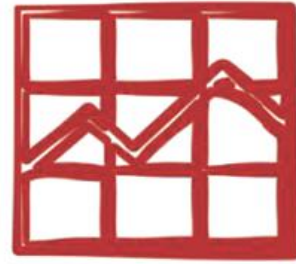
North Wind Solar is a worker co-op conversion in central Wisconsin.

Establish Goals



Selling owner identifies goals for their exit plan.

Assess Feasibility



Financial and operational analysis to assess feasibility of employee ownership given current state of company and selling owner's goals.

Plan the Transition



Structure financial, corporate, governance and management aspects of the deal.

Complete the Transition



Facilitate legal transfer.

Operate as Employee Owned



With support from consultant, policies and practices are developed to build thriving ownership culture.

Resources

- UW Center for Cooperatives
- Madison Cooperative Development Coalition
- UW Law & Entrepreneurship Clinic
- Other supports:
 - UW Extension
 - MadWorC (Madison Worker Cooperatives)
 - Preferred Provider Network
 - Wisconsin Economic Development Corporation (WEDC)
 - KIVA/Wisconsin Women's Business Initiative Corporation (WWBIC)
 - ICA Group

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Q&A

Thank you!

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