

The DNA of the Cooperative Business Model

Phil Kenkel, Bill Fitzwater Cooperative Chair

There are many flavors of cooperatives and many descriptions of the value package from participating in a cooperative. Members are both customers and owners and also participate in governance. I was recently asked to describe the “DNA” that is, the core element of the cooperative model. That is a tough question because all three roles, customer, owners and member, are important. The member value package is influenced by prices, service and access to infrastructure as well as patronage, equity retirement, the cooperative’s impact on the marketplace and of course the value of having a vote and a voice.

If I was forced to make a choice I would say that the DNA of a cooperative is patronage. The distinguishing feature of a cooperative is that the customers receive profit distributions in proportion to their use of the firm. It is that unique profit distribution system that creates the unique features of cooperative equity. Because there is no direct return to owning equity, there is no market for cooperative equity. That in turns creates our system of distributing a portion of profits in the form of equity and our various systems for revolving equity.

If patronage is the “DNA” of the cooperative model that implies it is what we should focus on. Paying patronage implies being profitable. That implies being efficient. It also requires rationalizing assets which requires eliminating inefficient or redundant assets, maintaining the most needed assets and working those assets hard.

As mentioned, patronage is paid in both cash and equity. If patronage is the DNA of a cooperative then the board and manager should pay close attention to both of those patronage streams. That means not retaining member profits as unallocated equity but instead retaining those funds in the form of either qualified or nonqualified stock. In simple terms the board should protect the cooperative by retaining the necessary portion of funds through equity patronage. All residual funds should be distributed as cash patronage.

The last aspect of being true to our “DNA” is to make the equity patronage as valuable as possible. By its very nature, revolving equity implies a delay in converting equity patronage into cash. However, extremely long revolving periods virtually eliminate the perceived value of stock patronage. We cannot be true to our “DNA” if we ignore the value of stock patronage either by not creating it (retaining member profits as unallocated equity) or not keeping it valuable through a reasonable revolving period.

If you test your cooperative’s DNA I hope you will find patronage. Of course I avoid testing my own DNA because it might not even be human!