

Does a Business Cooperative Make Sense For Your Organization in a COVID-19 Economy?

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Most businesses have been economically impacted around the world due to social distancing measures instituted by national and local governments. Decreases in consumer and business demand may be felt across most commercial business segments by companies of all sizes. In the United States, large publicly traded companies to small local businesses have sought out ways to seek financial support or cut expenses to subsist.

Small and medium sized businesses may have certain operations (such as distribution channels, production channels, administrative and marketing functions, etc.) that are vital to their business. However, some businesses may not be able to afford such operations as a going concern or may not be able to expand their markets due to COVID-19. When taking such circumstances into consideration, some businesses facing this COVID-19 era dilemma may want to consider joining or forming a national or local business cooperative.

Generally, a business cooperative is an autonomous organization of individuals or similarly situated companies (that may be in a certain industry or commercial sector) ("Members") that own and control an organization to benefit from each Member's supplies, products or services while achieving a common goal. For example, Ocean Spray is a well known vibrant agricultural cooperative owned by more than 700 cranberry farmers. This cooperative produces and markets cranberry products with the help of and to the benefit of its farmers. Ownership in a business cooperative is usually based on the amount of equity each member has contributed. Additionally, you will be required to use the products and services of the business cooperative to be able to invest in the cooperative.

Business cooperatives may have certain advantages for small to medium sized business such as:

- *Bargaining Power*– A business cooperative may allow for certain pricing advantages to its Members when it comes to obtaining third party vendor contracts. A business cooperative may allow for Members to lower costs incurred during production or process. For example, things such as shipping and supply costs may be lowered based on volume purchasing. Whereas costs would be substantially increased if such Members were purchasing such services or supplies outside of the business cooperative.
- *Opening Up New Opportunities*– A business cooperative may allow for the opportunity to compete with larger companies in larger markets. This may be possible through the cooperative providing a deeper supply/production chain or deeper pockets through the combination of resources to compete with larger companies.
- *Reduced Liability*– Depending on how ownership is allocated in the business cooperative, liability may be distributed in a manner that reflects ownership. This isolates other Members from being fully liable for their own and other Member's actions.
- *Lower Overhead*– Other than lowering the cost of third party vendor expenses as stated above, some business cooperatives may take over marketing and advertising or other administrative functions of an individual Member. This may effectively reduce costs.
- *Certain Tax Advantages*– Generally, cooperatives are treated similar to the pass through taxation an owner would

receive in an LLC or partnership. There is no entity level tax. Cooperatives are taxed federally under subchapter T of the Federal Tax Code. Additionally, there may be other tax advantages, such as, instead of providing dividends, the business cooperative may provide discounted products and services in the form of refunds to reduce tax exposure.

However, business cooperatives may have certain disadvantages such as:

- *Profitability*– A Member’s level of profitability may change depending on the ownership structure of the business cooperative.
- *Decision Making*– Depending on the legal structure of the business cooperative, decision making power is usually spread across all of the Members. This may cause for longer deliberations when committing to an endeavor or making vital decisions.
- *Legal Restrictions*– Business cooperatives are centered around state business statutes. Some states will only allow certain industries to form cooperatives. If your industry is localized, then a cooperative may not be a viable option.
- *Attracting Capital*– Typically, due to the structure of a cooperative, a business cooperative will have a difficult time obtaining financing from private third party investors (wealthy individuals or investment companies). However, cooperatives usually qualify for government and financial institution financing.

A business cooperative may or may not make sense for you organization during these times of economic uncertainty. In the event that this platform or organizational structure seems to fit your company’s needs, please contact us for further information.