# Business Structures Video Transcript

Business structures- What makes a cooperative unique? There are many ways individuals can work together to achieve a goal. Depending on the group's objective some utilize an informal structure such as an association or a collaborative, other groups require a formal business structure to achieve the desired outcome. An example of an informal collaboration is a group of farmers that are raising the same livestock and they want to work together to purchase feed as a group to achieve cost savings.

An example of a formal structure is a non-profit an organization of growers that sponsor activities and programs that help the growers achieve success and management small business creation promotion and development. A cooperative is a legal business structure. CHS is the nation's largest agricultural cooperative it's owned by farmers, ranchers and co-ops across the United States. Their portfolio includes a global energy grains food businesses and their goal is to really help producers coops and other stakeholders grow those businesses. So regardless whether it's an informal or a formal group they are all composed of members who are working together to achieve a common goal. Business activities and objectives dictate whether the formal structure is necessary or an informal structure will suffice.

A cooperative is one of six legal business structures. Business structures are outlined in state statutes for instance here in Ohio of the cooperative struck statute is outlined in Ohio Revised Code chapter seventeen twenty nine. Be sure to understand the nuances of your state's association statues and that information is available to you online through the secretary of your state. The other legal business structures are a sole proprietorship, a partnership, LLC, corporation and nonprofit. Each business structure has advantages and disadvantages. Ownership of a sole proprietor is limited to a single individual. A partnership, LLC, corporation, non-profit or cooperative more than one individual can have ownership over these business structures. In a co-op the user members which can be individuals or entities own the cooperative business so these are the folks that are actually using the co-operative to do business. The purpose of the business is usually to return on the owner investment. In the case of a non-profit is to provide services or information in the case of a cooperative it's to meet the members needs so to meet those needs the reason that the co-operative was formed. It also returns on the member investment through patronage so there's the profits are shared back with the cooperative.

Membership requirements vary across the different business structures. Corporations usually require a stock purchase. The amount of the stock purchase and what kind of stock is established in the foundational documents. The same is true of a cooperative usually a stock purchase or a fee a membership fee to become a member of the co-operative and the amount or the dollar value on the fee is established within the bylaws. Who uses the business? Within a cooperative it's actually the majority of the members- the actual owners of the business that used a business. An example is a dairy co-operative where farmers dairy farmers own the business and then market their business through the co-operative. Voting rights are granted in all of the business structures. There's the majority of the business structures in a corporation there's one vote per share in a cooperative there's one vote per member typically and each member has an equal vote within the cooperative.

Management of the cooperative theories amongst the different business structures corporations nonprofits and cooperatives typically have a board of directors some have hired management others do not have hired managers and cooperative often with the developing groups that we work with there's not herd management at the beginning but that is one of the first goals of the cooperative.

Financing a business is different depending on the structure that you choose. A sole proprietorship is typically financed by the owner investment in a partnership it's those initial partners that are financing the business. In an LLC it's we call the owners and members and it's usually their investment or a financing vehicle. Within a corporation or a cooperative it is through the sale of stock or shares in the cooperative and also through retained profit so that's how the business is financed. Nonprofits often utilize grants also contributions or donations and fees to finance the business. Taxation is different depending on the business structure within a corporation depending on how the corporation is incorporated C corps will pay the corporate rate and shareholders will also pay an individual rate on capital gains and dividends. Within an S corp shareholders pay the individual rate on the profit share and capital gains. Nonprofits are typically exempt because they have a tax exempt status. In a co-op members pay on qualified distributions based on patronage. The co-op pays the corporate tax rate on non qualified and unallocated profit so profits from non-member business and equity dividends are also paid by the co-op it's an advantage to the co-operative structure. Cooperatives also offer limited liability protection to the owners similar to an LLC or a corporation and unlike a partnership or sole proprietorship. Another big advantage of the co-operative is the antitrust protection which can read about more in the legislation module of Co-op Mastery. Subchapter T's and tax benefit that uses the change of member ownership to report their share of profit or loss in their personal tax return. A disadvantage of a cooperative that we didn't really touch on in this slide is that management is shared coops are also not eligible for some grants and tax exemptions such as donations like a non profit and revenue realized by the nonprofit's is not something that co-ops can take advantage of. In summary when you're considering the different business structures, ways you can achieve your goal, there are a few steps. First you're the group really needs to identify what the goal is, what's the purpose, what is what's your mission for working together. Next determine if a formal business structure is necessary to achieve that desired outcome. The group I mentioned earlier that's purchasing feed may or may not have a need for a formal business structure to do that. Then you'll want to assess the six business structure and choose the best fit that's going to help you reach your goals. Last assembled an informal organization or incorporate the formal business with the secretary of the state.