

# Setting a Membership Share Price



In a worker cooperative, a worker becomes a worker-owner, or member-owner, by purchasing a membership share. Membership shares are common shares that provide the highest voting rights within the company. Unlike in other companies, each worker-owner can only own one membership share. Whether you're a new startup cooperative or a conventional business transitioning to a co-op model, you'll need to identify an appropriate price for your membership shares. This guide provides a brief overview of the purpose of the membership fee and guidance on factors you should consider when making this decision.

The membership fee is the cost of a membership share and is determined by the board of directors. How do you determine the right price of a membership share for your cooperative? There is no right answer—the fee can be set at virtually any level, although it should be within reach of the people who work at the firm. Some co-ops set the fee at \$50 or \$100 to ensure membership is accessible to everyone. Other co-ops set the fee within a higher range, from \$1,000 to \$30,000, which can help capitalize the business while ensuring that new members are committed to ownership. Some co-ops choose not to charge a fee and give the membership share to workers after they meet eligibility requirements for ownership.

The offer and sale of membership shares requires careful attention to laws regarding stock purchase agreements. We recommend that you consult a qualified attorney or other expert to ensure you are in compliance with federal and state securities law.

# Key Elements of the Membership Share

- ▶ **Only workers can own a membership share.**
- ▶ **The monetary value does not change. The membership share does not increase or decrease in value like a share in a standard corporation, and it can never be worth more than what someone paid to purchase it. This allows new members to easily join a successful co-op.**
- ▶ **The membership share entitles the holder to one vote on shareholder matters.**
- ▶ **Membership shareholders have a right to an internal capital account and a portion of the company's net income, which are paid out as "patronage distributions."**
- ▶ **The membership share is non-transferrable. A member can only transfer a share back to the co-op.**
- ▶ **The membership share is redeemed when a member leaves the co-op. At the time of departure, the co-op buys back an employee's membership share for the price they paid for it.**

## A Membership Fee Establishes Commitment

Most cooperatives believe that a membership fee reinforces a member's understanding of the responsibility and risk of ownership.

Since the membership fee is a source of equity for a cooperative, capital needs should be considered when setting the share price. Although the membership fee may not be a necessary source of capital, it can be useful to set the fee at a level that indicates ownership is a serious commitment. That said, the fee should not be set so high that membership becomes financially unattainable for individual workers. The fee should be set low enough to be affordable, or set with flexible payment terms. Many co-ops allow members to pay the membership fee in installments over time or through payroll deductions.

The board of directors is responsible for establishing the membership fee and payment terms. The fee can be periodically updated to account for inflation, but it should never be changed in an arbitrary or discriminatory manner.

Some co-ops use an outside benchmark to set their membership fee. For example, South Mountain Company in Martha's Vineyard used the price of a mid-range used vehicle in good condition—a significant yet achievable purchase—as a benchmark for their membership fee. Other co-ops consider a reasonable monthly payment when setting their fee. For example, a co-op may set a fee at \$3,600, assuming that members could contribute \$100 per month for three years. Co-ops in industries with historically lower wages should consider lower monthly contributions.

## Consider the Cooperative's Financial Needs

A worker co-op serves as a mechanism to create a stable source of employment and income for its members. It is also a business that needs to consider market realities and prioritize long-term success. The membership fee is an equity investment that stays in the company until a member retires, resigns, or is terminated. Unlike borrowed money, which needs to be repaid on a set schedule, member equity is a long-term investment and the safest form of finance capital.

You could choose to set the membership fee by looking at your company's financial projections. For example, if your company required \$200,000 to get started and you expect to borrow \$100,000, you would need another \$100,000. If you had 10 members, a reasonable membership fee would be \$10,000. Similarly, if you had 20 members, the fee could be set at \$5,000.

## Consider the Selling Owner's Risk

Workers will want to know if the membership fee is a worthy investment in the business. Will membership lead to long-term, gainful employment? Will the return on the membership share from patronage dividends provide an appealing financial return?

For low-income workers, a significant investment in their business is a serious undertaking. The membership fee will likely compete with other financial responsibilities, including housing and transportation costs. Everyone working at the co-op should be able to afford the membership fee. Setting flexible payment terms or longer probationary periods can make ownership more accessible.

## Consider a Lender's Perspective

Lenders will look at the co-op's balance sheet and the amount of equity when considering whether or not to issue a loan. A higher membership fee indicates that worker-owners have invested a meaningful amount in the company. Lenders also look for collateral to back up their loan. Both equity contributions through membership fees and retained earnings in the business strengthen a co-op's balance sheet.

## Putting It All Together

- ▶ **A co-op's membership fee should be affordable and accessible to all workers interested in ownership.**
- ▶ **A low membership fee significantly reduces barriers to ownership, but requires financial stability.**
- ▶ **A higher membership fee can help assure a selling owner that workers have a long-term commitment to the business. It can also help establish your business model with lenders and customers.**
- ▶ **Whatever price you determine, be transparent with workers about your rationale for setting the membership fee.**