



Co-operative Development

Peter Cameron and Denyse Guy

Co-operative Development

Objectives:

- To review step-by-step approach to developing a co-op in Ontario.
- To discuss some of the strengths and challenges in incorporating a co-op.



What is a Co-operative?

adj.

1. Done in cooperation with others: *a cooperative effort.*
2. Marked by willingness to cooperate; compliant: *a cooperative patient.*
3. Of, relating to, or formed as an enterprise or organization jointly owned or managed by those who use its facilities or services: *a cooperative department store; cooperative apartment buildings.*

n.

An enterprise or organization that is owned or managed jointly by those who use its facilities or services.

International Co-operative Alliance

"an autonomous association of persons united voluntarily to **meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.**"

The Culture of Co-ops

- self-help
- self-responsibility
- democracy
- equality
- equity
- solidarity
- honesty
- openness
- social responsibility
- caring for others

Co-op Principles

1st Principle: Voluntary and Open Membership

2nd Principle: Democratic Member Control

3rd Principle: Member Economic Participation

4th Principle: Autonomy and Independence

5th Principle: Education, Training and Information

6th Principle: Co-operation Among Co-operatives

7th Principle: Concern for Community



9 Steps to Co-op Development

1. Group Development
2. Needs & Opportunities
3. Co-op Suitability
4. Development Of Your Idea
5. Feasibility Study & Business Plan
6. Financing
7. Incorporation and Legislation
8. Internal Structure & By-laws
9. Maintenance, Aftercare & Growth



Group Development

- Find people in your “community”
- You need 5 people to start a co-op
- 3 people for worker co-op
- Core group will become a steering committee



Needs & Opportunities

- Most co-operatives begin with a common need or opportunity
- Identify common needs and whether they represent a market opportunity
- Needs could range from discounted goods or services to employment opportunities



Co-op Suitability

- Research business structures
- Is a co-op suited to this opportunity?
- You are not required to incorporate as a co-op to run your business cooperatively
- Is a for profit or not-for-profit structure preferable?
- Complete a Co-op Self-Assessment Tool



Development of Idea

- Focus shifts from structure to business or service type
- Depending on type of enterprise, need to research business essentials
- Identify resources available to different business sectors
- Review market potential



Feasibility Study and Business Plan

- Traditional business planning skills used to assess financial viability of enterprise
- In addition to a feasibility study the enterprise will be guided by the marketing and financial plan
- How will the enterprise finance and promote itself?
- Consider the '4 P's' – Product, Place, Price and Promotion



Financing

- There are 5 ways to finance your co-op
- Selling shares
- Accepting loans from members
- Collecting fees from members
- Borrowing from other sources
- Gov't business and social programs
- Likely a combination of sources

Profit vs. Not-for-profit

- In for profit surpluses, after payment of dividends and interest on loans, surplus is distributed to members at directors discretion
- Surplus paid out in proportion to members economic participation in the co-operative
- In not-for-profit surpluses not distributed to members rather returned to general reserve or used to improve services to members



Share Types

- Co-operative can incorporate 'with share capital' or without
- Incorporating with share capital provides flexibility to use debt and equity financing
- Two types of shares: membership and preference



- Both membership and preferred shares are par value shares (co-op redeems or buys back shares for amount paid for the share)
- With preference shares co-op can pay a premium on preference shares (max. premium is %10 per year compounded- allows share value to keep pace with inflation but leaves co-op less equity)
- Dividends may be paid on membership shares (max. 2% over prime) or preference shares (no cap on amount of dividend unless co-op chooses to)
- Dividends can be paid out in stock dividends or co-op can require patronage returns be used to buy more shares- both allow equity to grow

Membership shares

- Equity raised through sale of membership shares
- Co-op requires minimum number of shares as condition of membership
- Can only be held by members
- Restrictions on transfer of ownership of shares
- Board must approve transfer
- Limitations on transfer of ownership affect attractiveness of co-op to member investors

Preference shares

- Invites outside investment from members of community or community investors
- Can be held by members or other investors
- May be more attractive for investment because generally dividends are paid to preference shareholders before membership
- Strong dividends and record of paying them helps attract future investment
- Upon dissolution of co-op preference shareholders rank ahead of membership but behind creditors

Incorporation and Legislation

- Incorporation should commence as soon as there is exposure to liability
- Incorporation under the Canada Co-operatives Act when the co-op operates in at least 2 provinces
- Business must be structured as a co-operative and incorporated as such to use the name 'co-op'
- Timing depends on factors such as need to enter legal agreements including: contracts with staff, letters of intent, supply agreements, funding agreements with government etc.



Incorporation

- To incorporate you must file Articles of Incorporation with FSCO. Articles include: name and location of co-operative, names addresses and signatures of the Incorporators, number of directors of co-op, how co-op finances itself, share structure of co-op and any special restrictions or provisions which apply
- You must also send to FSCO: proof of a Newly Updated Automated Name Search (or NUANS report), Articles of Incorporation (Form 1 – with share capital or Form 2 – without share capital), Consent Form confirming first Directors and a cheque/money order (\$155 non-profit or \$355 for other co-ops)
- Register your co-op with Ministry of Consumer and Business Services within 60 days – Initial Notice form

Development of Business

- Board uses business plan to promote the co-op and to provide basis for filing an offering statement
- Offering Statement necessary if co-op wishes to raise \$200,000+, has 25+ members or issues shares with a value more than \$1,000 per member
- Business plan should have outlined goals and objectives of co-op and steps to reach them
- Business Plan, Incorporation (with or without share capital) and Offering Statement (approved by FSCO) must be done BEFORE sale of shares can take place

Internal Structure & By-laws

- Co-op Corporations Act, By-laws and Articles of Incorporation provide legal framework for the Co-op
- Members have the following responsibilities:
 - Approve the By-laws with a 2/3 majority vote
 - Elect a Board of Directors
 - Appoint an Auditor
 - Approve audited financial statements
- The Board of Directors will appoint its officers – President, Treasurer and Secretary
- Board hires the Manager, Manager or Board hires staff (in a worker co-op the workers are the members and owner/managers)
- Committees can help to manage the co-op

Maintenance, Aftercare and Growth

- The task of starting your co-op may be over, but surviving and growing are challenges you will always face
- Operational planning for first year should include organizational chart, negotiation of contracts for necessary products and services, sales or marketing contracts, accounting system, duties and responsibilities, HR policy, other policies (spending, investment, etc.), management of democratic functioning, approval co-operative's membership in sectoral federation or co-operative organization

Strengths

- Co-op principles and values
- International Co-operative Movement
- Owned by members
- Democratic control – one member = one vote
- Better collective decision-making
- Limited liability
- Pooling resources and talents
- Profit distribution to members in proportion to use of services
- Transparency and accountability to its members
- Higher survival rate (40%) better than other business models

Challenges

- Lack of awareness of the model
- Governance – getting the right leadership !
- Managing the democratic functioning (Board, committees, management and members)
- Requires commitment
- Clear lines of responsibility and accountability
- Democratic decision-making can be a slower process
- Capitalization

Reasons for Business Failure

- Financial – 61 %
 - 32% insufficient profit/surplus
 - 14% insufficient capital
 - 8% heavy operating expenses
 - 7% burdensome debt
- Industry Weakness – 27 %
- Natural Disaster – 3 %
- Lack of Experience
 - 5% lack of business knowledge
 - 1 % lack of managerial and operational experience

Brian M. Henehan and Bruce L. Anderson, "Considering Co-operation: A Guide for New Co-operative Development", February 2001.



Ontario Co-operative Association