



Co-operatives: An Overview

As the public demand for financial security, fair wages, employment opportunity, sustainability, fairer trade, local/organic products, and bottom-up structuring has grown, a well-established (though previously under-the-radar) business model has gained prominence on a global scale. Co-operative enterprises have been flourishing since their inception in Rochdale, England in 1884; however, the model has become increasingly notable with the UN's choice to name 2012 the "International Year of Co-operatives." No business model has ever before been awarded such an honour, which has led some to dub co-operatives the "best-kept secret in business."

DID YOU KNOW?

In Canada alone, there are 9,000 co-operatives, with more than \$370 billion in assets, employing over 150,000 people and providing services to over 18 million members!

Just like all businesses, co-operatives exist to benefit their owners. However, co-operative enterprises have a distinct structure, different from other forms of business. First and foremost, co-ops are democratic enterprises which are owned and controlled by their members. The democratic structure of a co-op is maintained by a one member/one vote system. This means that every member, regardless of financial investment, has an equal say in the direction of the business. The membership can consist of customers, employees, producers or any combination of the above.

A co-op's primary purpose is to meet the needs of its member-owners, unlike most other businesses that exist solely to maximize profit. Co-ops can be formed as profit or non-profit organizations, and may have branches and subsidiaries. No matter what its size or scope, each co-operative is independent, and there is no one "corporate office" for the entire movement.

The co-operative enterprise model can be applied to any kind of business or need. Co-ops are often initiated by a group of people who share a common need (such as a local grocery store), want to capitalize on a new market opportunity (such as the provision of renewable energy), lack the capital or specific skillset to go into business independently (in the case of worker co-operatives), or provide a niche product or service (such as housing or funeral services). By pooling their resources and working together, the members can satisfy that need or seize that opportunity; a feat they may not have been able to accomplish individually.

DID YOU KNOW?

In more than 25 Ontario communities, credit unions (financial co-operatives) are the sole providers of banking services after the major banks closed their doors.

A co-operative's start-up capital usually comes from the sale of member shares in the co-op. Start-up enterprises must have a minimum of five members to incorporate as a co-operative, but there is no maximum: Mountain Equipment Co-op has over 3.3 million members. After payment of fair return on capital, surplus (i.e profit) is generally distributed in proportion to the business that members transact with the co-op in the form of *patronage* dividends or as lower prices or more favourable interest rates. Patronage return is different from profits earned on invested capital, since it is based on how much the member uses the co-operative's service, instead of the number of shares the member holds in the co-operative. Shares in co-operatives do not significantly appreciate or depreciate in value. Co-op shares generally are not considered investment vehicles as they must be sold back to the co-operative upon termination of membership and are not freely traded on stock exchanges.

Perhaps what's most interesting about co-operatives (and most appealing to entrepreneurs), is the sustainability and diversity of the model. Co-operatives around the globe are united by a set of seven core principles – making it the only business model which operates based on a common code. Principle number seven – “autonomy and independence” - for example, means that co-ops are focused on their membership, and that their mission and vision guide the types of partnerships or relationships entered into by the co-operative. Other principles include concern for community, and education, training and information. By law, these seven principles must be followed by all co-operatives, effectively enshrining the concept of the triple bottom line (people, planet, profit) into the co-ops' mandates. Compare this with the values and focus of other types of business which may shift with ownership, a marketing campaign or the drive for profits.

The strong bond between co-ops most certainly plays a role in their impressive sustainability. Three recent Canadian studies determined the survival rate of a co-operative enterprise to be more than twice that of other business corporations after 10 years (44.3% to 19.5%).

DID YOU KNOW?

Some well-known Canadian co-operative enterprises include Mountain Equipment Co-operative, Desjardins, Vancity Credit Union, Agropur, The Co-operators Insurance, United Farmers of Alberta, Federated Co-operatives and Gay Lea Foods. Some of the brand names you might recognize include: Northumberland Milk, Organic Meadow dairy, Scotsburn butter, Camino chocolate bars, Blue Diamond almonds, Ocean Spray, Sunkist, Bee Maid honey, and Citadelle maple syrup.

Another attractive feature of the co-op model is its *flexibility*. Unbeknownst to many, co-operatives in one or more of the four categories (consumer, producer, worker & multi-stakeholder), exist in almost every sector of the economy. The largest sectors include financial services (credit unions, caisses populaires, insurance and mutuals), housing, daycare, healthcare, agriculture and food supply, retail, transportation, communication, renewable energy, community and social services, tourism, recreation, art, culture and even funeral services.

ADVANTAGES OF A CO-OPERATIVE

- Money and jobs stay in the local economy
- Form of control is democratic — one member, one vote regardless of investment
- Limited liability
- Earnings surplus after meeting the needs of the co-op, is distributed to the members according to their use of the services of the co-op, and/or given back through reduced prices or fees.
- Survival rate over 10 years is more than double other forms of business

DISADVANTAGES OF A CO-OPERATIVE

- Democratic process may increase decision-making times and add complexity to record keeping
- Ability to raise capital is generally limited to the membership
- Start-up requires 5 or more members (3 or more for worker co-ops)
- Co-op consultants and developers are not as readily available as for other forms of business enterprise

A wealth of information and resources on co-operatives is available at the following websites:

The International Co-operative Alliance: www.ica.coop

The Canadian Co-operative Association: www.coopscanada.coop

The Ontario Co-operative Association: www.ontario.coop



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