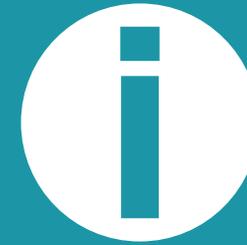


# Co-operative Business Conversions



FACT SHEET

## What Is a Co-operative Conversion?

A co-operative conversion or succession is the transformation of an existing organization such as a small or medium enterprise or non-profit corporation into a co-operative. A co-operative conversion usually proceeds through the purchase of the shares of the existing corporation or through the purchase of the corporation's assets. In some circumstances the co-operative could be created as a continuance of the corporation, i.e. a legal process to transform the existing corporate structure into that of a co-operative.

## The Opportunity

Many baby boomers are the owners of thriving small and medium sized enterprises. These owners hope to retire in growing numbers over the next 10 to 15 years and in order for this to happen their businesses must undergo some form of succession to new owners.

Co-operatives have the opportunity to be one of the key options for these successions, particularly in smaller rural communities.

Other small non-profit enterprises may also consider a conversion to the co-operative member driven model as well.

## Types of Co-operative Conversions

Existing organizations can be converted to different types of co-operatives depending upon the primary objectives and the makeup of the members of the co-operative leading the conversion.

**Worker Co-operative** – The workers and management convert the enterprise in which they currently work into a worker co-operative; these can be any type or enterprise.

**Consumer Co-operative** – The customers of an enterprise become the members and owners of a co-operative that purchases and operates the business.

**Producer Co-operative** – A group of the primary producers that supply a business, e.g., a group of farmers who supply a food processing facility, form a co-operative to purchase and operate the enterprise.

**Multi-stakeholder Co-op** – There is more than one group interested in forming the co-operative, e.g. the customers and the employees of a local grocery store may wish to form a co-operative together to purchase and to operate the store.

## Stakeholders in a Co-operative Conversion

There a number of key stakeholders in a co-operative conversion whose interests must be taken into account if the conversion is to be successful. These include:

- The business owner, spouse, children and extended family;
- The new leaders and potential members of the co-operative;
- The existing management and employees;
- The union if the enterprise is unionized;
- The existing customers and suppliers who need to have smooth and seamless transition; and

## ADDITIONAL INFORMATION

[coopzone.coop](http://coopzone.coop)

The above website has the following series of guides:

- The Co-operative Alternative: A guidebook for successfully transferring a business to a co-operative
- Business-owner's Guide: Selling a Business to a Co-op
- The Co-operative Alternative: A guide for co-operative entrepreneurs
- Co-op Steering Committee Guide: Buying a Business
- Companion Guide: Transferring a Business to a Co-op
- Tip Sheets: The 20 Steps of the Business Transfer Process, Checklist for a Business-to-Co-operative Succession Plan, Valuing a Business

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- The current and new financial backers of the enterprise i.e. banks and credit unions, local loan funds etc.

### The Conversion Process

Although each business is unique and there is no one-size-fits-all package for developing and implementing a conversion plan; there are three basic stages to a conversion: planning, implementation/transition and continuation.

#### Planning: Developing Understanding and Commitment

- The process of determining interest and commitment is one of sharing information with the various stakeholders in situations in which they will feel at ease. Both the owner and the potential co-op members must be introduced to the option and come to a common understanding as to how the co-operative conversion can address their needs.
- An independent business valuation must be completed to determine a fair price for the business. A feasibility study and business plan must be developed to demonstrate the business's future viability and to become the foundation for seeking member and outside financing for the co-operative.

- The form of the transition, i.e. share purchase or asset purchase must be determined and a basic understanding of the terms of the purchase agreed upon.

#### Implementation/Transition: Getting It Done

- The incorporation and the organizational development of the co-op must be completed.
- The financing package required for the transition must be secured.
- The operational transition plan to move from the existing owner to the new management and governance structure of the coop must be outlined and implemented.
- The knowledge transition plan is developed.
- The legal agreements must be drafted, approved and signed by the parties.

#### Continuation: Post-conversion Operations and Governance

- The members, directors, and management must take charge of new roles.
- The knowledge transition plan is implemented to ensure that key knowledge and skills from the retired owner are maintained.

- Management and governance reporting and monitoring are implemented to track the progress of the co-operative as it achieves its short and long term objectives.

### Technical Assistance

A co-operative conversion is a complex process requiring many different types of expertise. In some situations a single individual may carry out more than one role. Some of the key roles are:

- Financial planning to assist the owner with the retirement implications of the sale to ensure the owners future needs can be met;
- Succession planning facilitation to guide the process can ensure that the various stakeholders needs are addressed systematically and that the key players efforts will be effectively co-ordinated;
- Business valuation;
- Co-op development facilitation (could also be the succession planning facilitator) to guide the co-op development process; and
- Legal adviser (lawyer) to draft all the required documents, purchase agreement, etc.

#### FOR MORE INFORMATION, CONTACT

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[ontario.coop](http://ontario.coop)

**More resources are available at:**  
CoopZone Network  
[coopzone.coop](http://coopzone.coop)

This is one of a series of FACTSheets created by OCA providing general knowledge, best practices, and sector-specific information.

Get the full list of FACTSheets online at [ontario.coop/documents\\_downloads](http://ontario.coop/documents_downloads)