

Co-op Feasibility

Written by Russ Christianson

All right, you have already completed the Co-op Self-Assessment. If you still feel confident that a co-op business is the right thing for you and your group, the next step is to investigate its feasibility. A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question: “Should the co-op go into this business?”

This exercise will build on the Co-op Self-Assessment and delve deeper into the merits and challenges that your co-op enterprise will likely face. The process is designed for your group to share the work, have discussions and help you screen out business ideas that are likely to fail. The process will also test the group’s solidarity and productivity. Put it this way, if your group can’t confidently and efficiently complete a feasibility study, it’s not likely you’ll be able to successfully start and operate a business together.

Core Business

1. Describe the core business that your co-op will perform on a day-to-day basis?

2. List the products and/or services your co-op will sell?

3. Describe who will use your products and services?

4. Why would someone buy your product or service?

5. List your product/service suppliers.

Competitors

6. In the table below, list your competitors, their strengths and weaknesses (for example, prices, quality, location, reputation, market share, profitability) and the advantages your co-op will offer compared to your competition.

Competitor	Strengths	Weaknesses	Co-op Advantage

Human Resources

7. In the first column in the table below, name the key day-to-day tasks that will need to get done to ensure your co-op's members and/or customers have their needs fulfilled. Now, refer back to question 4 in the Co-op Self-Assessment and put the name of the person who will be responsible for each task.

Day-to-day Tasks	Person(s) Responsible

8. What skills are missing in your group that your co-op will need to get the job done?

9. In the first column in the table below, list the staffing positions you will need to get the collection of tasks done above. In the second column the number of positions and whether they are *full time or part time*. In the third column the amount you would like to pay (be realistic) for each of these positions. In the fourth column write down the results of multiplying columns two and three. Finally, add all of the rows in column four and total them – this is your initial forecast for salaries and wages. (Note: It is a useful exercise for each of you to fill out a “Personal Income and Expense Forecast” as a reality check).

Use a pencil (your numbers will likely change as you work through this exercise) and write down your calculations so you know how you arrived at them.

1 – Position Title	2 – Number of Positions	3 – Salary or Wage	4 – Total (2 x 3)
		\$	\$
Grand Total			

Forecasted Income Statement

The income statement for your co-op is similar to your personal income statement. It starts with revenues and subtracts costs and expenses to result in the “bottom line”. To evaluate the financial feasibility of the co-op, we will be looking at what is “likely” to happen. We want to get an overall idea of the likelihood the business will be financially viable – in other words, will the co-op bring more money in than it will spend.

For the purposes of this feasibility, we suggest you use this form and a pencil and hand-held calculator. Unless you know how to use a computer spreadsheet, the pencil and paper method is much faster, and it’s easier to do as a group.

If your co-op looks feasible, you will move on to the next step – the business plan – for which you will need to forecast a “*best case*” scenario and a “*worst case*” scenario in addition to the “*likely case*”. There are many software packages available to write business plans. Most banks and bookstores have these packages. Or, you can use the Ontario Co-operative Association’s [Business Plan Workbook](#). One thing to keep in mind, these tools will only provide guidance and a format for your plan. There is no short cut to using your intelligence and intuition to write your plan.

Expenses

Expenses are much easier to forecast than sales. Your group can do research on actual market costs for rent, equipment, insurance, etc. Of course, these costs will grow as the co-op grows, but hopefully not as fast, so the co-op will generate surplus cash from operations.

Sales Forecasts

The approach we suggest for feasibility is to work out your expenses first and then work backwards to determine the level of sales revenue the co-op will require to break-even. Then you can get into the details of how this revenue will be raised. How many products will need to be sold and at what price, how many members will you need, are there any supply constraints, etc.

Sales forecasting is very intuitive. It’s more of an art than a science. Don’t hesitate, just take a stab at it, reflect, do some more market research or a member survey, and revise your forecasts and expenses as appropriate. While there is a right answer in adding and multiplying numbers for the forecasts, there is no “right” answer for sales forecasts. There are only forecasts that make sense based on the assumptions you make, and the more reasonable and well researched your information is, the more confident you and others will be in the forecasts. Keep in mind that one of the most common mistakes made by entrepreneurs is being overly optimistic in their sales forecasts. Be conservative and confident in your forecasts.

Profit or Surplus

Most businesses lose money for the first few months (or even years) of operation. However, none will survive unless they generate surplus cash and a profit. You need to think about when you think your business will become profitable and build this into your financial forecasts.

10. Forecasted Income Statement for the year ending

Item	\$ Amount	% of Sales	Assumptions
(1) Sales Revenue	\$		
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
Total	\$		
(2) Less: Returns & allowances			
(3) Net Sales (= 1 - 2)			
(4) Cost of Goods Sold			
(5) Gross Margin (=3 - 4)			
Expenses			
(6) Wages & Salaries (including 15% benefits)			
(7) Rent			
(8) Promotion			
(9) Transportation			
(10) Utilities			
(11) Insurance			
(12) Dues			
(13) Depreciation (non-cash)			
(14) Miscellaneous			
(15)			
(16)			
(17) Total Expenses (sum 6 to 16)			
Net Income or Surplus (5 - 17)			

Start-up Capital Required

In order to start the business and generate the level of sales you're forecasting, there will be costs involved. Much of the start-up costs will have to be paid in cash, which means your group will have to raise the money. For profit co-ops can sell different kinds of shares, and at this point you don't need to get too technical, but simply think about the minimum investment each member will need to make, and whom you'll raise the rest of the start-up capital from.

11. Fill in the table below as appropriate to your co-op venture.

Item	\$ Amount Required	Source of \$
Business Plan Consulting	\$	
Incorporation and Legal Work	\$	
Logo and Letterhead	\$	
Membership Drive	\$	
Rental Deposit	\$	
Leasehold Improvements	\$	
Equipment	\$	
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
Equipment Total		
Insurance	\$	
Wages & Salaries (3 months)	\$	
Inventory	\$	
Advertising	\$	
Other	\$	
Grand Total	\$	

Summary Feasibility

12. Are there any major questions remaining about your proposed co-op venture?

13. On a scale from 1 to 10, rate how confident your group is in the feasibility of your co-op.
(where 1 is low and 10 is high)

14. Why did you give this rating?

15. What needs to be done to increase your group's confidence level?
