

# STARTING A CO-OPERATIVE

This is a general overview of the co-op development process that can help you explore the steps required to plan, develop, incorporate and launch your co-operative.

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## 1. Suitability

There are different kinds of businesses and business structures that could address your need or opportunity. At this point, you will have to research whether a co-operative structure is right for you.

You must remember that a co-operative or credit union is still a business, but it is a unique type of business. It requires the dedication of its members to an on-going process that is democratic and serves the needs of its membership. Starting a co-op takes time and dedication.

### ***CO-OP SUITABILITY***

Not only should a co-op be right for you, you have to be sure you're right for a co-op. Working in a co-operative doesn't mean you do everything together. However, you must be able to work together when making decisions, you must be willing to communicate, to share, to discuss and to find solutions that you and other members can accept. Together, you must be willing to share the risk and responsibilities.

Determine...

Do you want to direct and share in the control of your business?

What degree of control do you want? How much control do you want to share? Who do you want to share it with?

What do you not want to direct and control? (For example: the wages, what to produce or what to sell)

Who will be a part of the steering committee? (A small group that has enough time and energy to do most of the research and to make proposals to the full group.)

Is there enough interest among your members (and potential members) to continue developing this business idea?

### ***MAKE YOUR PLANS...AND DO YOUR HOMEWORK***

Like any good business, a co-op requires an excellent business plan, sufficient start-up capital, and the tenacity of its founders. There will be long hours, many meetings, and low pay in the start-up phase. And, there will also be break-throughs, exciting developments and the internal reward of accomplishing something important to you and your community.

The main difference between a co-op business and a regular company is democracy. This is both the strength and potential weakness of the co-op structure. It's a strength because it offers people (members) more control over their lives and the potential for making better decisions collectively than individually. It's a weakness because democratic decision-making requires more time, more discussion, and the ability to listen and even change one's mind. This doesn't mean that every little decision has to be made by the group. Usually, only long-term policies are determined this way, while day-to-day business operations are clearly assigned to various employees, just like any business.

Over 760 million people are members of co-ops worldwide (2). They've joined together because they are able to achieve something as a group that they simply couldn't do as individuals.

## **2. Group Development**

### ***MOVING BEYOND THE IDEA STAGE***

Your first task is to find other people in your community.

To start a co-operative you need at least five members (three, if it is a worker co-operative).

Obviously, the more people you have interested in your co-op idea the better. Spread the word.

Read the papers. Check out economic development offices near you. Talk to other people with similar needs.

'Community' can be defined in a variety of ways - geography, workplace, common need, religious or other grouping of people. Think about your community. Where is it? Who is it? Local ethnic, trade, union, religious, cultural, or educational groups and organizations may be a source of support, inspiration and members. It could be that your community has a need which could be served by forming a co-operative.

Sometimes it may be hard to find other people who have similar interests or ideas. It may also be difficult to find the support you need. It is important for you and for the co-operative to have a support network within your community and within the co-op sector. If you are having trouble, contact a co-op federation related to your type of co-operative. They will help you to link up with a local or provincial co-op group or federation. They might know of people, resources, other co-ops and organizations in your own community that can help you.

Many co-op federations offer consulting and business development services. They will be able to answer your questions and help to point you in the right direction. Don't forget that On Co-op works with developing and emerging co-operatives, too!

The Financial Services Commission of Ontario has prepared a booklet on the steps required to set up a co-op in Ontario. [Click here](#) to view (27 pages, PDF format. (Note - contact information contained in the appendices may be out-of-date.)

## **3. Needs and Opportunities**

Co-operatives often form when there is a need or an opportunity. For example, the owners of a company, business or factory may be selling or closing the business and the workers will lose their jobs. The workers may decide to buy the business and run it themselves.

Before you go any further you must be sure that your idea addresses a need or an opportunity. For instance, if a group of people need work you could create a worker co-op, which provides jobs for its members. Remember that your worker co-op, in order to be successful, must provide a service or product for which there is also a need or market.

A need: Often communities lack certain services or products.  
A co-op can be formed to provide the needed service or product.

An opportunity: Sometimes changes in the community or workplace create new possibilities for services or products. Co-ops can be formed to use these opportunities.

If particular products are not available to you in your immediate community, a consumer co-op could be formed to access them. The same applies to services. Your community may lack cultural or recreation services. A co-op may be organized to provide these. Wherever there is a need or an opportunity, you may be able to develop a co-operative in response.

Considerations:

- Does your co-op serve a need or respond to an opportunity?  
For you, your members or your community?
- Talk it up. Communicate our ideas and feelings. Make sure everyone knows what the process is, what direction is being followed and that you have a common goal
- Learn about co-ops, co-operation and credit unions and enterprise development. There are resources available
- What tasks or jobs will each of your members have? Make sure each person has a clear role or task during the development stages.
- Starting a business can be difficult - try not to get discouraged! It takes time and dedication but starting a co-operative can be very fulfilling. Working with a group of people is challenging, but you will also find support within your group.

## **4. Developing Your Co-op**

At this stage, the help of a co-operative federation or resource group will be very important. The federations can help you to learn about co-ops and co-op development. They can also help you to understand about your type of business or service. For example, the Ontario Worker Co-op Federation can help you learn about organizing a worker co-op.

### ***MOVING AHEAD WITH YOUR IDEA OR CONCEPT***

Up until now you, you've been dealing about co-operatives in general. Now you will need to learn more about your enterprise as a particular type of business or service. For example, if you are starting a day care co-op you need to learn about day care. If you are starting a bookstore co-op, you need to learn about how bookstores are run. Do some research to find out which publishers provide the books you want to sell, see how bookstores organize themselves...

Research co-ops by talking to people who are members of the kind of co-op that interests you, housing co-ops, for example, or co-op bakeries. Find out how they are run.

Learn about businesses in your economic sector. Attend workshops and seminars on how to run your type of business. You may also be able to visit businesses to see how they work.

Contact a co-operative federation, such as On Co-op, or a sector resource group to access further development services.

Before you begin the more formal plans (i.e. marketing, financial and business plans), take some time and reflect on group development, needs & opportunities and co-op sustainability. You may wish to complete the [Co-op Self-Assessment](#) to help you in this process.

## 5. Feasibility Study

### ***DETERMINING THE VIABILITY OF YOUR CO-OP***

Once you have a clear idea of what your co-op will look like, you must determine whether the co-op will be viable by preparing a feasibility study. Your organizing group will also need to develop your business plan (which includes a marketing and financial plan). Together these plans will show how your business will run, and how it will finance and promote itself.

If you still feel confident that the co-op business model is the right thing for you and your group, the next step is to investigate its feasibility. You must determine your new co-op's ...

- financial plan
- business plan
- marketing plan
- feasibility and sustainability

It can be challenging to transfer your ideas into something tangible. It's a good idea to get advice when developing these plans.

A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question: 'Should the co-op go into this business?'

The feasibility study is something that can't be completed in an afternoon - you may have to do research, planning and discuss your ideas with people and organizations outside of your co-op planning group. It 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. 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.

[Click here](#) to download the Co-op Feasibility Questionnaire.

When you have completed the Feasibility Questionnaire, and done your research, you should have written answers to the following points:

## ***FEASIBILITY STUDY***

For your feasibility study determine and outline:

- the business ( members, type of co-op, size ,location....)
- how much money you would spend
- how much money you would bring in
- how your co-op will work finally, based on these numbers
- other businesses in your community or market that offer the same or related products and services?
- will you be able to work together and compliment each other's services? Is there enough business for both?

## ***BUSINESS PLAN***

For your business plan you need to develop a financial plan and a marketing plan.

### ***A. FINANCIAL PLAN***

Starting a business -- even a co-operative -- requires money. You'll need money for start-up and money to sustain operations during the first few months until the business is able to generate revenue. Your financial plan is where you evaluate and describe: the costs of doing business; Projected revenues; and Sources of financing.

Determine all of your costs:

- start-up costs including legal, financial, incorporation and other professional expenses
- operating costs (income+ expenses)
- cash flow
- wages
- equipment - from desks to refrigeration to pens and computers
- hidden costs (such as delivery charges or deposits on equipment or utilities)
- heating, hydro, office space rental)
- loan payments (how and when you will pay them off)
- financial projections
- training expenses - what training you will need to start and to keep going

### ***B. MARKETING PLAN***

Marketing is the single most important concept in the business venture, because without customers, there is nothing. Marketing provides you with information and tools for building and maintaining a customer base. The basics behind a marketing plan are summarized by the 'four P's' Product, Place, Price and Promotion.

Your Marketing Plan will include:

- your market (the potential buyers or users)
- your members (see the information at the bottom of this web page)

- the type and quality of services and products you will offer
- what you will charge for your product or service
- how you will promote the co-op
- where you will promote the co-op

If it appears that your business would be viable (i.e. the need for your product or service is strong enough to support the co-op), you can continue forward in developing your co-operative.

Your well-thought out and well-written business plan will help you to secure loans and grants from funding agencies, government and financial institutions.

There are many organizations, software programs and websites which can assist you in creating a business plan once you have done your research. [Click here](#) to visit the Government of Canada's Interactive Business Planner.

Remember that credit unions are part of the co-operative movement. While they still must evaluate organizations based on their merit and the strength of their business plans and presentations, dealing with a credit union or caisse populaire often means that you also don't have to explain in great detail what a co-operative is!!

### ***CO-OPERATIVE PRINCIPLES***

As you create the feasibility study and business plan for your business, remember that to be considered a co-operative, you must adhere to the [7 International Principles of Co-operation](#). Therefore, the plans for your co-operative must also include...

- open membership
- one member, one vote
- co-operative education
- no proxy voting for members
- limited interest on member loans
- limited dividends on membership shares
- to the extent feasible, members providing capital
- distribution of surplus funds to develop the business, improve common services and provide reserves
- to pay interest on member loans,
- to pay dividends on membership shares and investment shares,
- for community welfare, or
- for distribution among members as a patronage return

## **6. Financing Your Co-op**

### ***FINANCING AND CAPITALIZATION***

There are five ways to finance (capitalize) your co-op:

- selling shares
- accepting loans from members
- collecting fees from members
- loans/grants/equity from other sources (venture capital, financial institutions, co-op funders, credit unions, friends, family)
- government and non-government social programs

You will likely use a number of ways to finance your venture, depending on the nature of the service and whether you are a non-profit or for-profit co-op enterprise. For example, to be eligible for some government programs you must meet certain criteria, such as being a non-profit co-op.

### ***GETTING THE MONEY YOU NEED TO START UP AND RUN YOUR CO-OP***

Do you have the short-term and medium-term funding of your co-operative arranged? On Co-op has links to co-operative developers and organizations which provide funding for co-operatives.

Consider:

- How much money will you need to start up?
- How much money do you need to run your business?
- Where will you find the financing?
- How will you pay your loans?
- Incorporate Your Co-op

Once you've got a clear idea of who and what you are and how your co-op will work, you will want to become legally recognized as a co-op so you can start your business. You'll need to develop by-laws and articles of incorporation.

## **7. CO-OPERATIVES AS LEGAL ENTITIES**

Canadian co-operatives are incorporated either under federal or provincial legislation. There is a need for co-operatives to become legal entities to ensure proper business practices are followed, to provide permanence to the business, and to ensure that the co-operative principles - democratic control, one member/one vote, limited interest on investment capital and equitable distribution of funds - are maintained.

In order to be considered a true co-operative, you must be incorporated under the co-operative legislation in Ontario. Of course, anyone can work collectively and co-operatively and not be incorporated, but you must not use the words 'co-op or co-operative' in your legal name [with or without the hyphen].

The advantages of incorporation include protection from personal liability (losses and other liabilities would be held by the co-op, not by you as individuals), consumer protection,

credibility, legal recognition, access to loan programs, and on-going affiliation with co-operative organizations and federations.

A co-op has a charter (Articles of Incorporation), by-laws, and policies, like other types of corporations. However, unlike other forms of corporations, members are involved in formulating policies and operating the enterprise.

To operate as a co-operative in Ontario, your business must be organized and operated on a co-operative basis. The definition of 'co-operative basis' is based on principles laid out in the [Statement of Co-operative Identity](#) adopted by the International Cooperative Alliance in 1995.

### **NON-PROFIT AND FOR PROFIT**

In Ontario, all co-ops must be registered under the Co-operative Corporations Act. Some co-operatives issue securities to their members, and to restricted categories of non-members. Co-ops can be incorporated with share capital, without share capital, as a worker co-op (with or without share capital) or as a non profit (must be without share capital).

A co-op may be operated on a profit or not-for-profit basis, as stated in its charter. Being not-for-profit, does not mean that the business is operated 'at cost', but that profit (often called 'surplus') is not the primary objective.

Co-operative legislation recognizes that the motive for operation in a co-operative is service, not profit. Thus co-operatives differ from other incorporated bodies in a number of respects including:

(a) Generally those who use the services of a co-operative are also members. Members of the co-operative own shares, which are usually divided into voting and not-voting 'classes' of shares. In a private business one shareholder can own a number of voting shares thereby entitling the shareholder to a substantial number of votes to override the wishes of smaller shareholders. This can never happen in a co-operative because each member is limited to one voting share. Each member has one vote despite the number of shares he or she might hold. This is why it is said that co-operatives are democratically controlled.

(b) Proxy voting, often practiced in private enterprise, means that one shareholder may vote on behalf of other shareholders. This is another way in which only a few shareholders can gain control of a company. Proxy voting is not allowed in a co-operative and, therefore, control is exercised by the majority of members present.

(c) Surplus earnings in a co-operative are distributed to the members. Members of a co-operative decide how this money will be distributed. Some types of co-operatives return earnings to the members based on how much they have spent at the co-operative. Others, such as some workers' co-operatives, divide surplus earnings equally among the members. Still other co-operatives use surplus earnings to reduce the cost of services to members. In private businesses, surplus earnings are paid to shareholders, who are not usually the main users of the services, and are distributed according to the amount of shares held.

(d) Unlike private business, shares in a co-operative do not have speculative value; that is, they cannot be bought, sold or traded for profit. Members own shares in a co-operative, as a condition of membership, to provide funds to allow the co-operative to operate. These funds are referred to as share capital.

## ***HOW TO INCORPORATE IN ONTARIO***

Co-ops work with a variety of different government ministries, departments and agencies in the province.

Under Ontario's *Co-operative Corporations Act* (CCA), all businesses wishing to incorporate must file the appropriate forms, statements and fees with the Financial Services Commission of Ontario (FSCO). To learn more, [click here](#).

## **GLOSSARY OF TERMS**

**Articles of Incorporation** lay out the general framework of the cooperative. Articles include the cooperative's name, share structure, directors and incorporators. Amendments to the articles require a special resolution of the members and, if investment shares are issued, a separate special resolution of shareholders. A special resolution is one generally requiring no less than two-thirds of the votes cast.

**By-laws** are internal to a co-operative. They generally pertain to the rules of operation. Changes to the bylaws must be approved by the membership.

**Policies** are created by the board of directors and management team to provide the guidelines and directions of the organizations on issues such as human resources, finances and other issues. They are generally approved by the board of directors and reviewed on a regular basis. Policies can be modified at the board level.

**Procedures** are the ways in which the co-op's policies are carried out.

## **8. Internal Structure**

How your co-op is organized will depend on its size, purpose, and the nature of its membership. A well-organized co-op will run more efficiently and make it easier for members to participate.

### ***BOARD, MEMBERS AND STAFF WORKING TOGETHER***

Now that you are incorporated you will want to develop the internal structure of your co-operative. Generally, co-op members get together and elect a board of directors and its officers (Chair, Treasurer and Secretary). The board hires and supervises the Manager. The Manager (or the board, if you don't need management) hires and supervises the staff. (Within a worker co-op, the workers are the members and owners/managers.)

### ***MEMBERS***

The foundation of your co-op is its members. Co-ops may include both individuals (16 years of age or older) and corporations as members. Each member of your co-op has one vote at

members' meetings. Through these meetings, the membership makes key decisions, such as electing your co-op's directors, approving the issue of new types of shares, and changing membership fees.

### ***DIRECTORS AND OFFICERS***

Your co-op will need a board of directors elected by its members to run the co-op in the members' best interests. Directors approve new members, budgets, important contracts, and plans for expansion. They are also responsible for deciding whether to issue shares and declare dividends. Directors must be members of the co-op, at least 18 years old, and may not be undischarged bankrupts. Co-ops need to have at least three directors at all times, but you may need more depending on how big the co-op is or how complex its business is.

Officers are elected or appointed by your co-op's board of directors. Examples of officers are the chair of the board, president, secretary, treasurer and, in larger co-ops, the general manager. Officers oversee the operations and hire and supervise managers, if any.

Except for the president and chair of the board, your co-op's officers may be staff members - they don't have to be directors or members.

### ***BOARD MEMBER RESPONSIBILITIES***

The co-op's Board of Directors has important responsibilities in the overall conduct and direction of the co-operative's activities. They are acting on behalf of the membership, and represent the members' collective interests. The legal obligations of Directors are outlined in the co-op legislation. The ongoing duties of Directors include:

- Hire, supervise and appraise the general manager/executive director
- Direct the activities of the co-op according to the co-op's by-laws and the co-op legislation
- Act as liaison between the manager and the members
- Establish the mission of the co-op
- Formulate and implement policies to meet the co-op's objectives
- Elect and serve as officers on the board - Chair, Vice-Chair, Secretary and Treasurer
- Remain accountable and report to the membership as per the co-op's by-laws

Your co-op may purchase insurance to cover the liability of directors and officers who are sued for actions taken in the course of their duties. This insurance does not protect directors and officers who have authorized illegal acts or have failed to meet a minimum standard of care.

### ***A DIVERSE BOARD OF DIRECTORS***

Diversity means a variety of people - people of different ages educational and professional background, family status, gender, geographic origin, lifestyle, personal values and beliefs, race, sexual orientation and so on.

A diverse board doesn't just happen. You can make it happen if you:

- tell members you want a board that reflects the membership
- tell members the co-op will provide training for new directors
- ask members you think will make good directors to run for the board
- talk with members of diverse groups to find out why they don't run
- get rid of any barriers you can.

Find out about barriers: You may have created barriers to some members running for the board without realizing it. Talk with different groups to find out what those barriers are. You can remove some, but not all barriers. Here are some you can get rid of:

- meeting dates that conflict with work, family or religious days
- a meeting place that isn't accessible
- unrealistic ideas about what directors should do (time or skills)
- too many documents to read

**Ask members to run:** Some members are shy; others come from cultures where they will not volunteer, but will do a job if asked. A personal request is always the most effective way to find a volunteer.

**Provide training for directors:** Many co-op members have never been on a board of directors and it may seem like a big job. Hold an information meeting before your elections to explain what the board does. Tell members the co-op will provide training for directors after the election. Let them know that they don't have to be experts in order to run.

**Encourage active members to change the positions they hold:** If experienced directors keep running for the board, it may be hard to get new people elected - whether they are part of a diverse group or not. New leaders are important for all co-op boards, so find rewarding jobs for long-serving directors outside the board. Look for ways to encourage board renewal.

*- Diversity information courtesy CHF Canada*

## 9. Maintenance

The task of starting your co-operative may be over, but surviving and growing are challenges you will always face. Your co-operative will have to maintain quality services and products and grow financially. You will need to continue learning about co-operatives and co-operation if your co-operative is to flourish.

### ***CO-OPERATION AMONG CO-OPERATIVES***

On Co-op, co-op and sector federations and local organizations often provide education and training services to their members through conferences, workshops, publications and sometimes with visits to your co-operative. Each federation has its own program of services, which range from board training, member education and government relations, to workshops

on financial management, legislation, and how to develop education plans... the programs are wide and varied. Some are part of your member fees and some have an extra fee.

### ***YOU ARE NOT ALONE***

Associations such as On Co-op invite co-ops to come together to network, share, discuss and Learn. Take advantage of those opportunities! Remember - co-ops are strengthened by working together. Other co-op and credit union sector organizations may be able to offer support, financing or services through possible joint ventures or as a market for your own co-op's services and products. You in turn may be able to provide the same for other co-ops.

For information on other co-op organizations, visit the [Links](#), [Funders](#) and [Member](#) pages of the On Co-op website.

### ***SUSTAIN YOUR CO-OP***

These ongoing initiatives will strengthen your co-op. On Co-op provides programs and services in many of these areas.

- Board of Director training and education
- Member training and education
- Co-operative education of staff, members and the community
- Increasing or strengthening your services or products
- Finding ways to grow financially
- Possible joint projects or activities with other co-ops locally and provincially, nationally and internationally
- Networking with other co-op organizations
- Government relations

### **To become successful - and remain successful, also consider...**

- Meet a real need for the members
- Recruit and maintain a strong, experienced, well-rounded board of directors
- Recruit and maintain competent, experienced management and employees
- Define clear lines of responsibility and matching accountability
- Ensure timely and accurate financial accounting and information systems
- Conserve cash and build member equity
- Commit resources to member & employee education; social & environmental objectives

*The text in this guide was on an earlier version of the On Co-op website and has been consolidated into one document for convenience. Some of the text in this section is based on information from the [Co-operatives Secretariat](#) and the [BC Co-operative Association](#).*