

Cultivating Co-ops

**A resource guide for co-operative development
in British Columbia**



BC Co-operative Association

February 2011 edition

The BC Co-operative Association gratefully acknowledges the Ontario Co-op Association (www.ontario.co-op) for its permission to use its *Cultivating Co-ops* guide as a basis for this document. We also are grateful to Devco (www.devco.coop) and Vancity Savings (www.vancity.com) for permission to use their materials, as noted throughout this document.

Suite 212, 1737 West 3rd Avenue
Vancouver, BC V6J 1K7
Tel: 604-662-3906 Fax: 604-662-3968
E-mail: general@bccca.coop

Web: www.bcca.coop

Table of Contents

Part I — About Co-ops

Introduction	5
1. Co-operatives in British Columbia	5
2. Co-op Structure & Philosophy	6
What is a Co-op? and What Does it Mean to Me?	6
Membership in Co-ops	7
History of Co-ops	7
The Rochdale Principles	8
Co-op Structure	9
The Co-operative Difference	10
Types of Co-operatives	11
Co-ops and Community Economic Development	12

Part II – Starting a Co-op

3. Getting Started — A Co-op Checklist	14
The BIG Three	14
Step 1: Group Development	14
Step 2: Needs and Opportunities	15
Step 3: Co-op Suitability	16
Step 4: Development of your Idea or Concept	16
Step 5: Determining the Co-op Structure	17
Step 6: Feasibility Study and Business Plan	18
Step 7: Incorporating your Co-op	21
Step 8: Internal Structure & Roles	22
Step 9: Maintenance, Aftercare & Growth	23
4. Success Factors for BC Co-operatives	24
5. Frequently Asked Questions	25
6. Meaning of Co-op Terms	26
Appendix A: Co-op Assessment Tool	29
Appendix B: Elements of the Feasibility Study	30
Appendix C: Incorporation Questions	31
Appendix D: Resources	35

Part I — About Co-ops

Cultivating Co-ops: A resource guide for co-operative development in British Columbia

Introduction

What will this guide do for me?

This guide will outline what a co-operative is and what kinds of co-ops exist. It will also describe the steps to take in order to develop a co-operative and help to connect you with further resources. And hopefully it will answer some of your questions!

You may photocopy or reproduce parts of this booklet for your research and to help your group. However, we request that you cite the source.

Note: terms in bold are defined in section 6 of Part II, beginning on page 26.

1. Co-operatives in British Columbia

Co-ops in BC

BC Co-operative Association

The British Columbia Co-operative Association (BCCA) is the umbrella organization that works on behalf of co-ops and credit unions in British Columbia, Canada. We promote co-ops as powerful tools for community control over local economies and as key strategies for economic and social reform.

We are a member-driven organization that is a registered "second-tier" co-operative of other co-ops, credit unions and supportive organizations drawn from across the spectrum of our economy. Among our members are some of the largest co-operatives in Canada, as well as some of the smallest and newest types of co-ops. A listing of the over 75 BCCA members can be found on our website: www.bcca.coop.

Our work, though constantly evolving, normally focuses on the following areas:

- Developing new co-ops
- Strengthening and supporting existing co-ops
- Educating and promoting co-operative solutions to the challenges facing B.C.'s communities, which includes bringing co-ops to new sectors of the economy (such as health care)
- Introducing young people to the advantages of membership in co-ops and credit unions
- Linking co-ops together to share ideas and solve problems common to them all
- Sharing services and technical expertise amongst co-ops and credit unions
- Forging partnerships with other institutions, governments and countries to build new relationships and strengthen the co-op movement in our province
- Offering graduate level co-op education and
- Promoting co-operation, in collaboration with other organizations and all levels of government, as key to addressing challenges and opportunities that are unique to British Columbia.

British Columbia has one of the most vibrant co-operative movements in Canada. Currently, there are over 750 co-ops and credit unions in BC. They are active in a broad cross section of sectors including financial services, insurance, health services, housing, transportation, social services, agriculture, forestry, fisheries, post secondary education and retail. Total membership in British Columbia's co-operatives exceeds 2 million people. Collectively, these people control more than 50 billion dollars in assets through ownership of their co-ops.

The BC Co-operative Association office is located at:

Suite 212, 1737 West 3rd Avenue
Vancouver, BC V6J 1K7
Tel: 604-662-3906 Fax: 604-662-3968
E-mail: general@bccacoop
Web: www.bccacoop

2. Co-op structure and philosophy

What is a co-op? And what does it mean to me?

Co-operatives are founded on a common idea. The idea is that people, no matter what economic class or educational level, know what's best for themselves. People can work together to meet their own needs.

Co-operatives and credit unions are owned and operated by their members. This means co-ops are democratically controlled. Each member has one vote, regardless of how much investment is made in the co-operative or credit union. Generally, co-ops and credit unions are community-based organizations.

Co-op members are responsible neither to outside owners, nor to government — they are responsible to their own members. The members decide how the co-op or credit union will be run, what changes should be made if any, elect the board of **directors** and decide what should be done with any **surplus** (profit) that is generated in the co-op enterprises. In non-profit co-operatives the members own the coop, not for their own benefit, but for the overall benefit of the community. Members can decide the overall strategic direction for the co-op, they elect the directors and decide when to dissolve the co-op. As well, they have a responsibility to manage it; however they do not have a financial stake nor is there the possibility of a financial return to them.

Co-ops have a unique set of advantages over other kinds of enterprises and organizations. Co-ops and credit unions:

- **Help people obtain goods and services that they may not otherwise be able to afford on their own.** By pooling their purchasing power through a co-op, members can obtain affordable, high-quality products and services.
- **Are inclusive and accountable.** They are open to everyone regardless of income or social status.
- **Help build stronger communities.** Since most co-ops are community or regionally based, investment in, and surplus revenue from the co-op stays within the local economy. Every dollar invested in a local co-op has a significant multiplier effect for the community.
- **Are loyal to their communities.** They are less vulnerable to takeovers and closures by outside decision-makers. In fact, in many communities, co-ops have stayed to serve their members long after other businesses have fled to more profitable locales. For example, there are numerous communities in BC where credit unions are the only source of financial services.

- **Have a higher survival rate than private businesses.** Statistics show that co-ops have a 64% survival rate in the first five years compared to 36% for private businesses. Over ten years, co-ops have a 46% survival rate, compared to 20% for private businesses.¹

Co-ops and credit unions are the best example of how democratic principles can be applied to economic life. Co-operation means people working together to meet common goals and needs. Co-operatives provide opportunities for people to direct what happens in all aspects of their lives. Within a co-operative, people find strength in collective action and the powerful motivation of mutual support.

Membership in Co-ops

Who are the members?

Members are people or groups of people who use and need the services and products a co-operative provides. If the co-op is created to provide work, the workers are the member-owners. If the co-op is created to purchase goods and services, then the consumers (the buyers) are the members. People from all kinds of communities, backgrounds and ages are members of co-ops and credit unions. There are over two million members in BC!

What are the responsibilities of members?

Co-ops require that members buy a share — a financial investment in the co-op. The amount of the share varies depending on the size and type of co-operative or credit union. Each member has one vote, regardless of the number of shares held.

Responsibilities of members range from electing the board of **directors**, to serving on committees. Members help out with various activities such as distribution in a food co-op or organizing an activity at a housing co-op.

History of co-ops

When did co-ops begin?

The co-operative movement has a long and fascinating history. There is a common thread that runs throughout this history. It is a desire by everyday people to care for each other and to work together. They demonstrate a common effort to improve their lives and the life of their communities.

Although co-ops had existed since the 1700s, the first formal co-operative, structured as we know most co-ops today, was incorporated in Rochdale, England in 1844 by a group of weavers. At that time, most workers were living and working under terrible conditions brought on by the Industrial Revolution. Almost every facet of a worker's life was controlled by the factory owners. This included where the workers could live, where they could shop and what they could buy. Often, the shops and homes were owned by the employers. The co-op movement in England at this time was a key part of a widespread movement for political and economic reform in that country.

The weavers in Rochdale were tired of paying high prices for poor quality food. They decided to start a store of their own. Individually, the weavers did not have enough money but, inspired by the co-operative teachings of Robert Owen, they decided to pool their money. All of the people interested in becoming members and co-owners of a store contributed a small amount of money to a fund. When the fund was big enough, the Rochdale Pioneers (as they came to be called) were able to rent a building, buy supplies, and open up shop on December 21, 1844.

The shop sold candles, tea, fuel and basic foodstuffs. The co-op kept track of each member's purchases and distributed the profits in proportion to how much each member bought. The first consumer co-op was so successful

¹ Survival Rate of Co-operatives in Québec, 2008 edition, Report by Ministry of Economic Development, Innovation and Export in Québec.

that the members were soon able to rent the upper stories of the building. The extra space was used for a library and educational lectures. People in Rochdale valued the ability to buy high quality goods at a fair price. The weavers of Rochdale had discovered the value of co-operation as a powerful tool for economic freedom.

Rochdale was a turning point in economic democracy. The lessons of Rochdale were the basis for the growth of the co-operative movement as a worldwide phenomenon. The legacy of Rochdale lives on because these pioneer weavers passed on their organizing principles. Today, there are many thousands of co-operatives all over the world. More than 800 million people in 87 countries belong to co-ops using these seven international principles of co-operation.

The Rochdale Principles

What are the principles of co-operation?

The International Co-operative Alliance (ICA), an international organization for co-operatives, adopted the Statement on Co-operative Identity in 1995. These are the guiding principles for co-operatives throughout the world.

Seven International Principles of Co-operation

1. Open and voluntary membership
2. Democratic member control (one member-one vote)
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation among co-operatives
7. Concern for community

The co-operative movement

Where are co-ops located?

There are over 8,000 co-operatives in Canada, with nearly 12 million members and assets (what they own) totaling over \$100 billion. Co-operatives and credit unions in Canada employ over 125,000 people. In BC, there are over 650 incorporated co-operatives and credit unions with over 2 million members. Some of the largest businesses in Canada are co-operatives. Co-operatives are also located in many of Canada's smallest and most remote communities.

How are co-operatives connected to each other?

Co-operatives organize themselves in various ways:

First-tier (or primary) Co-ops: A co-op that does business or provides services within a local community and directly to individual members is called a first-tier co-op.

Second-tier Co-ops: A number of primary or first-tier co-ops that offer similar products or services may join together to start a federation, or an association. These groupings are called second-tier co-ops. For example, BCCA

is a second-tier co-op consisting of co-op members throughout BC. Another example is the Co-operative Housing Federation of BC. Second-tier federations offer services to their member co-ops.

Third-tier Co-ops and Apex organizations: In turn, a number of federations may join together to form third-tier co-ops. Third-tier co-op organizations represent all kinds of co-operative federations and associations. They provide education and services for their members. Sometimes, when an entire co-op movement unites under a single umbrella organization, this is called an *apex organization*. The Canadian Co-operative Association (CCA) is an apex organization uniting the co-op movement across Canada.

Internationally, co-operatives and credit unions are linked by organizations that represent the same type of co-operative throughout the world (an example is the World Council of Credit Unions). There is also an international organization that represents all kinds of co-ops from all around the world called the International Co-operative Alliance (ICA).

Co-ops have extensive networks with other co-operatives throughout the province, the country and the world while remaining community-based organizations. These networks help co-ops become stronger and better serve the needs of their members. Like the Rochdale Pioneers, co-ops have found that through this structure of working together they can pool their resources. In this way co-ops can be stronger together than they could be by existing independently.

Co-op structure

How are co-ops organized?

Co-operatives are organized so that the members control the organization. The structure enables members to elect the board of directors. Members may also run for the board. The board of directors puts in place and oversees the management. The manager hires the staff. In co-operatives, the board of directors is responsible to the members — the people who need and use the co-op's services.



Some co-operatives are not-for-profit or Community Service Co-ops while others are for-profit. Community Service Co-operatives do not distribute surplus or patronage dividends or issue investment shares, although they usually have other membership requirements (like committee involvement, for example). Community Service Co-ops use surpluses to enhance services. For-profit co-op enterprises generate surpluses (or profits) that can be used to strengthen the co-op by expanding the business and/or shared among members and staff. These co-op enterprises have structures that allow members and non-members to buy shares and invest in the co-op.

While some co-operatives (like housing co-ops) receive some government funding, co-operatives are not government organizations. Co-ops are community-initiated organizations and businesses.

The co-operative difference

How do co-ops differ from other businesses?

Co-operative organizations differ from other businesses in three key ways:

A Different Purpose: Co-ops and credit unions meet the common needs of their members, whereas most investor-owned businesses exist to maximize profit for shareholders.

A Different Control Structure: Co-ops and credit unions use a system of one-member/one-vote, not one-vote-per-share. This helps them to serve common interests and to ensure that people, not capital, control the organization.

A Different Allocation of Profit: Co-ops and credit unions share profits among their member-owners on the basis of how much they use the organization, not on how many shares they hold.

A Co-operative is essentially:	A private investor-owned business is essentially:	A not-for-profit society is essentially:
An association of people and/or organizations	A union of money	A union of people and/or organizations
An organization of users	An organization of investors	An organization of individuals or organizations
Organized by people to serve their own needs	Organized by entrepreneurs to attract and serve customers and to create profit for owners/investors	Organized to serve others and the community
Controlled by its members	Controlled by those with a majority of shares	Controlled usually by the Board of Directors. In a co-op, boards must be elected by members. This is not required in the case of societies and NGOs.
Liability is limited; members don't automatically share in liabilities of the co-op.	Liability is limited; shareholders don't automatically share in liabilities of company.	Liability is limited; members don't automatically share in liabilities of the society.
Shares are par value or non-par value. Members benefit from services provided more than accrued value of shares. If profits are distributed, distribution is based on the member's use of the co-op's	Shares are (usually) non-par value. Owners benefit/suffer from the market's valuation of shares. Profits are distributed based on number of shares owned.	No shares, no distribution of funds to members. No profits are distributed.

services.		
An organization in which surplus earnings (profits) belong to the user-members and are used to make the co-op stronger or returned to members (in for-profit co-ops)	An organization in which profit belongs to the corporation – and is primarily used to provide a return to shareholders	An organization in which the surplus is reinvested in the mandated services the society provides
Community owned and controlled – because of its investment method and control mechanism, it guarantees Canadian control of Canadian enterprise	Vulnerable to takeover by outside, foreign and multinational interests	Not an ownership model; it is a traditional model providing community services and is not a business model

Types of co-operatives

What kinds of services and products do co-ops offer?

Co-operatives have been formed in almost every business or social sector you can imagine. For example, co-ops are bakeries and forestry enterprises, design shops and furniture factories, health centres, craft or food distributors, dairies and food stores.

Since co-ops are run and directed by the people who use them, co-ops also fill the cultural, social and economic needs of the communities or groups they serve. Co-ops are diverse organizations. They may be large or small, simple, or complex. Some co-ops serve the whole community, some serve particular groups within that community. For example, artisan co-ops serve their members who sell products through the co-op. On the other hand, anyone can join a community credit union. Many co-ops and credit unions are small, simple organizations. But there are also many co-ops that are large businesses with millions of dollars of assets.

What types of co-ops exist?

In addition to the different services or products that co-ops and credit unions offer, there are also a variety of types of co-operatives operating in Canada. Although some co-ops might fit into more than one type, these are the most common:

Community Service Co-ops are a new designation recognized under the *BC Co-operative Association Act*. They have a similar status in law as non-profit societies. They are also eligible for charitable status. Community Service Co-ops require the inclusion of non-alterable clauses in their rules that ensure that the co-op operates on a non-profit basis and that its purpose is charitable or to provide health, social, educational or other community services.

Consumer or user co-operatives help members to use their combined purchasing power to buy goods and services they need. Examples include farm supplies, food retailing and wholesaling, elder care, health care, housing, and funeral and burial services.

Financial co-ops are co-operatives that provide financial services such as insurance, loans, savings plans, and marketing services to their members. The owners are individual members in local communities or groups of organizations throughout the province or country. Financial co-ops include the credit unions and the *caisses populaires*.

Marketing co-operatives market products or add value to the products that members produce. Some of these co-ops market agricultural products, or the works of aboriginal crafts peoples and third-world artisans.

Multi-stakeholder co-ops are co-ops in which a variety of member groups share control. For example, different levels of workers, or suppliers and consumers may be represented on the board of directors. Some examples of multi-stakeholder co-ops are local food co-ops in which control may be shared by both producers and consumers, and health co-ops in which patients and health care providers are the member groups that share control.

Producer co-ops are co-operatives in which members pool their resources in order to produce or market products such as dairy products, processed foods, handicrafts or video and film works.

Worker co-operatives are a type of co-operative enterprise that combines worker ownership and democratic control. Members provide themselves with employment while making goods and/or services available to the community. Examples of worker co-ops include lumber businesses, pulp mills, aboriginal food growers, bakeries, and print shops.

Co-ops and community economic development

How can a co-operative help my community?

Co-ops are a way for communities to exercise control over the economic, social and cultural activities that affect the lives of community members. Establishing co-operatives and credit unions in our communities (or for a community of people) is a powerful and democratic way to put decision-making in the hands of those who need and use the services.

Co-operatives and credit unions are directed locally and use (and generate) local capital. The surplus of co-op enterprises belongs to the members. Therefore the surplus and the investment dollars stay within that community or within that community of people. Co-ops provide opportunities for people to work together to meet their own needs.

If you are interested in finding out more about co-operatives and community economic development, please refer to the resource section in Appendix D.

Some final thoughts

Generations of Canadians have used the principles and values of co-operation to make an invaluable contribution to the development of our country and communities. We have used co-operatives to overcome harsh geographical and economic realities. Like other people around the world we have used co-operatives to provide democratic solutions to the problems and challenges that affect our lives.

Today, the co-operative movement offers a distinct and viable alternative to the public and private sectors of the economy. Co-op values go beyond simple profit generation by looking at the broader needs of community members.

Together, we can play a vital role in re-shaping the social, cultural, and economic growth of our communities in ways that reflect the values of people working together for the benefit of all.

Part II — Starting a Co-op

3. Getting started: a co-op checklist

There are a number of steps to follow if you are interested in exploring a co-operative idea. You may already have a core group of people with whom you are working. You may already be a business but would like to convert to a co-operative structure. Perhaps you are not sure what kind of business structure you want. These steps are organized so that you can start where you already are – or you can use them to fill in gaps you may have missed.

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.

BCCA can help with any of the following stages, either through talking with you on the phone or by email to explore how the co-op model can be applied to your business idea, by answering questions regarding co-ops, supplying useful resources for you to explore or through our Advisory Services program (see our website for details — www.bcca.coop). Feel free to contact us anytime at 604-662-3906 or by email at general@bcca.co-op. Be sure to include your phone/email contact info if you're leaving a message or contacting us by email.

The BIG Three

To help you get started, consider what we call The Big Three questions in the box below. These are the fundamental questions that will jump start your co-op development process, described in detail in the steps below.

The BIG Three — questions to jump start your co-op development project

1. Do you have your Steering Committee group together? [Step 1]
2. Who are your members? [Step 5]
3. How will your co-op make money? [Step 6]

Step 1: Group development

I have an idea, now what do I do?

Find other people in your community with similar needs or who share your idea. To start a co-operative you need at least three members, but it usually takes from three to seven interested people to form the Steering Committee or Working Group. Spread the word. Read the papers. Talk to other people with similar needs.

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.

Another aspect of group formation to keep in mind is the skills and resources that each group member can bring to the Steering Committee. It is a good idea to have someone with financial expertise, for example, or someone with

web editing skills, marketing or a knowledge of the sector you're getting into (e.g., lumber, local food, health, etc.). Ensure that you have a group with a diverse set of skills.

A final consideration is group process — can you all get along? How will you accommodate those that are very detail oriented and big picture thinkers? Will you work by consensus? How will you handle the fact that some have less time to give to the co-op development process? How will you deal with questions of leadership, power and authority on your Steering Committee?

Goals of this Step:

- Set up the Steering Committee/Working Group
- Recruit people (and organizations) with interest in your idea

Step 2: Needs and Opportunities

We have a group interested – now what?

It is common for co-operatives to start 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.

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.

Before you go any further you must be sure that your idea addresses a need or an opportunity. For instance, if you need work, you could create a worker co-op that 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.

Think about your community. Where is it? Who is it? Perhaps your community is defined by a grouping of people more than by a geographical location. Local ethnic, trade, union, religious, cultural, or educational groups and organizations may be a source of support, inspiration and members. How will your co-op idea serve your community?

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:

1. Does your co-op serve a need or respond to an opportunity? For you, your members, or your community?
2. Talk it up. Communicate your ideas and feelings. Make sure everyone knows what the process is, what direction is being followed and that you have a common goal.
3. Learn about co-ops, co-operation and working together. Learn about how to run effective meetings.
4. Research — learn about co-operatives and credit unions and enterprise development. There are resources available. (Check the resources section in Appendix D).
5. What tasks or jobs will each of your members have? Make sure each person has a clear role or task during the development stages.

Step 3. Co-op suitability

How do we know if a co-op is what we want?

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

You have to remember that a co-operative is a business, but a unique type of business. The dedication of its members is critical to the on-going process to ensure that the co-op is democratic and serves the needs of its membership. Starting a co-op (or any enterprise) takes time and dedication in order to ensure member buy-in and engagement.

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 a decision, 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:

1. Do you want to direct and share in the control of your business?
2. What degree of control do you want? How much control do you want to share? Who do you want to share it with?
3. What do you want to direct and control? (For example: the wages, what to produce or sell...)
4. Is there enough interest among your members (and potential members) to continue developing this business idea?

Step 4. Development of your idea or concept

We think a co-op would best suit our needs. How do we develop our co-op enterprise?

In the previous steps you were learning more 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 cafe co-op you need to learn about how restaurants are run. For example, do some research to find out which suppliers provide restaurant fixtures and how cafes are structured.

At this stage, the help of Co-op Developer can be extremely useful. According to the CoopZone website —

Carrying out an effective co-op development process is crucial for the success of new co-operatives. It requires a broad set of skills, knowledge and experience. For most new co-operative entrepreneurs, although they have the vision of what they want their new co-op to accomplish, they often lack some of the required knowledge and experience to move the project forward. Filling this knowledge and experience gap is how an experienced Co-op Developer can be of great assistance.

Choosing the right developer is very important for your group. As with any professional service arrangement you must satisfy yourself that the developer has the knowledge and skills you are seeking. Beyond assessing their skills you also must be comfortable on a personal level with the developer, as you will be working very closely with the developer. In choosing a developer it is always good to ask them for references so that you can talk with others who have worked with them.

Lastly be sure to spend time up front with the developer to identify what needs you have, the approach the developer will use to assist you, the timeline for the work and of course what it will cost.

Goals for this step:

1. 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 bakeries. Find out how they are run.
2. 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.
3. For initial support for the development your co-op idea, contact the B.C. Co-operative Association (general@bcca.coop), or to find a co-op developer in your area search the CoopZone website's Directory (www.coopzone.coop).

Step 5. Determining the Co-op Structure

A key question to resolve with your Steering Committee is — *Who will be the members of our co-op?* The answer to this question — producers, consumers or workers — will help you determine what type of co-op best suits your enterprise idea. Some co-ops combine two or more member classes to form a multi-stakeholder co-op. This flexibility in co-op type, and combination of different classes of members, gives the co-op model a great deal of elasticity that allow you to apply the co-op model to almost every conceivable enterprise idea.

You'll also need to determine whether your co-op will be a for-profit enterprise co-op or a not-for-profit Community Service Co-op. Non-profit co-ops in BC are now incorporated as Community Service Co-ops and have similar status in law as non-profit societies. They are also eligible for charitable status.

Community Service Co-ops require the inclusion of non-alterable clauses in their rules that ensure that the co-op operates on a non-profit basis and that its purpose is charitable or to provide health, social, educational or other community services.

To incorporate as a Community Service Co-op, the co-op's Memorandum of Association must include the following non-alterable provisions:

- a) That the co-ops is a community service co-operative
- b) That the co-op will not issue investment shares
- c) That upon dissolution, the co-op's property must be transferred to another community service co-op or a charitable organization and
- d) That no part of the property of the co-op is to be distributed to members while it is in operation.
- e) Note: if the community service co-op is also intended to operate as a charity, the purposes must fall under one of the Canada Revenue Agency's Heads of Charity (e.g. to provide health, social, educational or other charitable services)

With the inclusion of these provisions, the BC Co-op Act formally recognizes the unique value and role provided by co-operatives that wish to operate on a non-profit basis.

Step 6. Feasibility study and business plan

What do I need to include in a feasibility study and business plan?

Feasibility Study Once you have a clear idea of what your co-op will look like, you must determine whether the co-op will be viable financially by preparing a Feasibility Study. The main question you're trying to address in a feasibility study is — *Does the co-op idea make good business sense?* What revenue do you need to break even? is this product or service one that your customers or clients really need and will they pay the price you will be asking for it? To prepare yourself for the Feasibility Study, explore the Co-op Self-Assessment Tool with your Steering Committee — see Appendix A.

A Feasibility Study investigates, in detail, the factors that will determine if the business is feasible. These factors include:

Market	Industry, market niches, customers (real and potential), competition, collaboration, market share expectation
Supply & Materials	Cost of goods
Production Process	Equipment, transportation, labour
Operating Costs	Labour, utilities, insurance
Overhead Costs	Labour, support services, utilities, financing, office/warehouse/production facility/store
Financials	Capitals costs including depreciation of assets, forecast assumptions, income statement, break even analysis, cash flow statement, risks
Financing Options	Lease, rent, purchase, joint use
Member Share Options	Working capital, reserve

For your feasibility study determine and outline:

1. the business (members, type of co-op, size, location...)
2. how much money you would need to spend to start-up your co-op
3. how much money you would bring in, both at start-up and after launch
4. how your co-op will work financially, based on these numbers

See Appendix B, *Elements of the Feasibility Study*, for more information.

Business Plan Once you have determined the basic feasibility of your co-op idea, you'll need to develop a Business Plan. The Business Plan differs from a Feasibility Study in the amount of detail it covers about your business as well as in its planning rather than exploratory aspect. It focuses on tactics and strategies for the implementation of your project and outlines your plan for business growth and sustainability.

The federal government's Canada Business website has some useful information on developing your business plan: <http://www.canadabusiness.ca/eng/125/138/>.

Two key elements of a business plan are the financial and marketing plans. Together these plans will show how your business will run, and how it will finance and promote itself.

For your business plan you need to develop:

A. FINANCIAL PLAN

All your costs:

1. start-up costs
2. operating costs (income + expenses)
3. cash flow
4. wages
5. equipment (from desks to refrigeration)
6. hidden costs (delivery charges...)
7. heating, hydro, office space rental...
8. loan payments (how and when you will pay them off)
9. financial projections
10. training expenses – what training you will need to start and to keep going

You also need to show how you will bring revenue into the co-op. This can be in the form of the sale of products or services, or special purpose grants or subsidies. When you deduct all of your costs of start-up and early operation from the revenue, you'll usually see that there's a shortfall of money during that time. To cover this, you'll need financing, or to put it another way, you'll need to raise **capital**.

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

- Selling shares (for-profit co-ops only)
- Accepting loans from members
- Collecting fees from members
- Borrowing from other sources (Venture Capital, financial institutions, credit unions, friends, family)
- Government, business and social program grants (usually only for not-for-profit Community Service Co-ops, except for the CDI program).

The following table outlines the sources of funding for BC Co-ops:

Business Development Stage	Sources of Grants & Technical Assistance	Sources of Equity Financing	Sources of Debt/Loan Financing
Building organizational capacity	Co-op Development Initiative (CDI) — www.coopscanada.coop	Your co-op's members	
Business Plan development	Coast Capital Savings Credit Union (www.coastcapitalsavings.com) Enterprising Non-Profits (www.enterprisingnonprofits.ca) Co-op Development Initiative (CDI) (www.coopscanada.coop) Community Futures (technical assistance)	Your co-op's members	
Start-up	Vancity Community Project grants (www.vancity.com) The Co-operators (http://www.cooperators.ca/en/aboutus/sustainability/2_8_5.html) CDI (www.coopscanada.coop)	Your co-op's members	Vancity or Coast Capital Savings micro loan programs (www.vancity.com or www.coastcapitalsavings.com)
Growth	CDI (www.coopscanada.coop)	Investors	Vancity Capital Community Futures
Maturity		Investors	Conventional lenders

Source: Vancity Credit Union (used with permission & updated)

Consider:

1. How much money will you need to start up?
2. How much money do you need to run your business?
3. Where will you find the financing?
4. How will you pay for your loans?

B. MARKETING PLAN

The marketing plan considers the “four Ps” of marketing — Product, Place, Price and Promotion.

1. your market (who are the potential buyers or users)
2. what quality services and products you will offer
3. what you will charge for your product or service
4. how you will promote the co-op
5. where you will promote the co-op

It can be challenging to translate your ideas into a tangible plan. It’s a good idea to get advice when developing these plans. Many resource groups and federations offer consulting services as well as written resources. An experienced co-op developer can also be a critical resource at this point. You can sometimes find help at economic and business development offices in your community.

Step 7. Incorporating your co-op

We’ve made it this far – but what about making it legal?

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 are not required to **incorporate** as a co-operative to run your business co-operatively. You can work collectively and co-operatively and not be incorporated, but you are not permitted to use the word co-op in your legal name.

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, on-going affiliation with co-operative organizations and federations.

There are four documents required to incorporate a co-op under the BC Co-operative Association Act:

- The Memorandum of Association includes basic information about the co-op, its purpose and its share structure. This is where you specify if you are going to incorporate as a Community Service Co-op.
- The Rules outline all the details of the co-op's governance and share structure. The Rules and the Memorandum need to be signed by “the subscribers,” the founding members of the co-op. In your Memorandum, you need a minimum of three subscribers with: name, address (location address) and occupation. Location address is a street address not a box number. Address and occupation are not needed on the Rules, just the signatures.
- The List of First Directors name the “interim” directors until the first general meeting which must be held within three months from the date of incorporation. The co-op must have at least three founding directors.
- The Notice of Registered Office gives the official address of the co-op. This must be a location address and may be the home or workplace of one of the members. The Corporate Registry office will send its response to your incorporation documents to this address, as well as any future “official” documents for the co-op, until or unless it's changed.

The filing fee for incorporating a co-op is \$250.00. Two sets of signed originals of all the documents are required by the Corporate Registry in Victoria. Remember to keep copies for your files. The registry office will usually get back to you with either your Certificate of Incorporation *or* with a list of changes required within three-four weeks.²

Before you submit your incorporation documents, you need to reserve your co-op name. The name needs to express the nature of the co-op or the service it provides. It must contain the word “Co-operative” or “Co-op.” It may not contain “B.C.” or “British Columbia” or the word “Company” or “Limited”. When you apply to the Corporate Registry you need to choose three names. The filing fee is \$30.00. Once approved, your name will be reserved for 56 days, during which time you must complete your incorporation, which will give you permanent access to the name. If necessary you can renew the name registration for an additional 30 days.

Further information on incorporating your co-op, including costs, can be found here:

<http://www.bcregistryservices.gov.bc.ca/bcreg/corppg/crco-op.page?>. First, you’ll need to reserve your co-op name.

Information on and the Name Approval Request form for this step can be found here:

<http://www.bcregistryservices.gov.bc.ca/local/bcreg/documents/forms/reg46.pdf>. The cost for filing the form is \$30 (check online for updates. Once your name is approved, it is reserved for you for a period of 56 calendar days. Any renewals of the reservation period will require payment of another reservation fee.

The BC government has an excellent guide to incorporation called *Incorporating a Co-operative in British Columbia*, available online: <http://www.fin.gov.bc.ca/registries/corppg/forms/guide.pdf>. The forms are found at <http://www.bcregistryservices.gov.bc.ca/bcreg/corppg/crco-op.page?>.

See also Appendix C for some Incorporation Questions that you can use as a guide when drawing up your incorporation documents.

Step 8. Internal structure and roles

How do the members and staff work together?

Now that you are incorporated you will want to formally establish the internal structure of the co-operative.

Co-op members are required to hold an annual general meeting to elect a board of directors and its officers (President, Treasurer, Secretary). The board hires the Manager. The Manager (or the board, if you don’t need a manager, hires the staff. With a worker co-op, the workers are the members and the owners/managers.

Your membership, whether it is a large group in a consumer co-op or a smaller group with a worker co-op, needs to:

1. Determine the responsibilities of members – how you will divide labour and volunteer work
2. Decide how you will pay the workers
3. Set out the roles of members, staff, directors, officers
4. Elect directors; the directors need to elect officers
5. Vote on proposals
6. Act on decisions and hire staff if needed
7. Find facilities if needed

² The above paragraphs in this section and all the material in Appendix C are courtesy of Devco (used with permission).

8. Join your provincial association and any applicable federation.

When you get through all of these processes you will be on your way to a co-operative future!

Step 9. Maintenance, aftercare and growth

The task of starting your co-operative may be over, but surviving and growing are challenges you will always face. You 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-op developers have specialized skills that can be brought to bear in dealing with co-op problems through all the stages of starting a cooperative. In addition, they are invaluable in helping address many of the challenging issues that co-ops will encounter during their growth and maturity phases. To find a list of co-op developers that operate in BC, look at the Directory on the CoopZone website, www.coopzone.coop.

Federations and local organizations often provide education and training services to their members through conferences, workshops, publication and sometimes with visits to your co-operative. Each federation has its own program of services that 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.

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, contact us at BCCA.

Consider:

1. Board of Director training and education
2. Member training and education
3. Co-operative education of staff; members and the community
4. Increasing or strengthening your services or products
5. Finding ways to grow financially
6. Possible joint projects or activities with other co-ops locally and provincially, nationally and internationally
7. Provincial Filing Requirements and Record Keeping.

4. Success Factors for BC Co-operatives

Studies have shown that co-operatives have a higher survival rate than conventional businesses.³ What accounts for the success of co-ops? A 2008 study in Quebec revealed the following success factors:

Four factors indicate that the higher survival rate is specifically due to the inherent structure of the co-op model:

- The focus on member service as opposed to profit, which has an impact on business decisions
- The central role of the member, who is both investor and consumer in the co-op
- The democratic nature, the return of profits to members and the open governance structure of co-ops
- The presence of a group of promoters rooted within the communities

Three factors also indicate a historical advantage, as well as the business environment of co-ops:

- Strong representation in economic sectors that fulfill basic human needs, including agriculture, forestry, residential services, funeral services and education
- The majority of co-ops operating in both regional and sectoral networks
- Support of primary and secondary organizations, which favours improved project management of start-ups and in the development and presence of financial and fiscal tools and resources, which are adapted to the co-op model.

A study undertaken by the BC Co-op Association to assess the survival rate of co-ops incorporated between 2000 and 2010, shows that these co-ops attribute the following factors in their success:

- Financial factors, both in terms of adequate start-up capital, and in the realization of the importance of start-up capital to the success of the co-op
- The background and experience of the board directors
- Paid management with previous co-op experience (as opposed to volunteer managers with no co-op background)
- Training & enlisting outside consultant expertise
- Business planning and clarity of purpose.

The main advice that respondents had for new start-ups was:

- get outside help (i.e., consultants)
- anticipate problems and solutions and
- be flexible with the changing nature of the co-op structure.

The respondents also advised new groups to keep it simple and focused; get community buy-in; do a business plan and feasibility study; talk to others who are doing similar things; and set up structures and policies.

³ Survival Rate of Co-operatives in Québec, 2008 edition, Report by Ministry of Economic Development, Innovation and Export in Québec (summarized on the Ontario Co-op Association's blog: <http://ontariocoops.wordpress.com/reports/survival-rate-of-co-operatives-in-quebec-2008/>)

5. Frequently Asked Questions

Are co-ops legal, like companies and societies?

Yes, co-operatives can be incorporated under the relevant provincial or federal legislation governing them. For example, in British Columbia the provincial Co-operative Association Act provides the framework for incorporation. The Act is available on the government's website:

http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/00_99028_01.

Just as with an incorporated company or a society, incorporating a co-operative creates a legal entity that can apply for loans, purchase property or equipment and engage in contracts and other business activities in its name. Incorporation also limits the liability of directors and members to the amount of their financial investment in the co-operative. Directors of co-operatives have the same responsibility to “direct and protect” the co-operative's business and assets as do the directors of companies and societies.

There are groups that consider themselves to be co-operatives but have not incorporated, however, *only an incorporated co-operative has the legal right to use the word “co-operative” in its name.*

More information about incorporating a co-operative can be found in the BC government document:

www.fin.gov.bc.ca/registries/corppg/forms/guide.pdf

Can anyone start a co-op?

Co-operatives can be initiated by anyone with an idea that involves a group of people working together to meet their common objectives. For example, artisans or farmers may want to start a co-op to help them market their product. Or a group may want “sell” their labour as worker-owners of a co-op. Co-operatives also get started by people who want to purchase products or services. While one person may have the original idea, it is important for there to be a group that will help to take the idea forward. In British Columbia it takes three people to incorporate a co-operative.

How long does it take to start a co-op?

There are many factors involved in starting a co-operative and they all affect the length of time it takes. Sometimes getting a group of people together who will be committed to seeing the process through from conception to launch takes a fair bit of time. Or it may be that extensive market research is required to assess the feasibility of the enterprise. On the other hand, we know of co-ops that had easy access to essential equipment or facilities and had the necessary skills to launch their project quickly.

How much does it cost to start a co-op?

Starting any business takes a lot of time, money and commitment. Some (approximate) costs in BC are the fees to:

- Reserve the co-op's name \$30
- File incorporation documents \$250

Both fees are paid to the BC Ministry of Finance. Amounts are current as of December 2007; you can find out if there have been any changes at www.fin.gov.bc.ca/registries/corppg/forms/guide.pdf

Other costs could include technical assistance from a co-op developer to help with all aspects of the development and launch of your co-op. For help with designing and incorporating your co-op, fees can range from approximately \$1,500 - \$2,000. For assistance throughout the entire development process (support for preparing your business plan, establishing policies, training directors, and helping to raise the capital you need) fees can be up to \$20,000.

You may also choose to engage a lawyer for certain stages of your development, since most co-op developers are not qualified to provide legal advice. There are also expenses to launch the business. These costs depend on the type and size of the business and will be established in your business plan.

To start a co-op you must be prepared for these and possibly other expenses. You must also be prepared to spend a lot of time working on the start-up, generally without any financial compensation.

Can people donate money to a co-op?

Yes, people can donate money to a co-op. However, most co-ops will not be in a position to provide a “charitable donation” receipt for tax purposes. As with societies, it takes perseverance for a co-op to receive charitable status from CCRA. If your intention is to donate money to a co-op in order to receive a tax deduction, check first to see if the co-op has charity status. Since April 2007, an amendment to the BC Co-op Act means that “non-profit” co-ops can now be incorporated as Community Service Co-ops and have similar status to non-profit societies. The change made community service co-ops eligible for charitable status. Contact the BC Co-operative Association at 604-662-3906 for more information.

There are other options for making a donation to a co-op. For example, you could donate to a charity that helps to set up co-ops as a way of alleviating poverty. Under certain circumstances, investment in the shares of a co-op can be eligible for inclusion in a self-administered RRSP - which means that investors can get a tax deduction for purchasing them. You can find more information on the RRSP program on the Canadian Worker Co-op Federation website: www.canadianworker.coop.

Does "open and voluntary membership" mean you have to let anyone at all into the co-op?

No, it doesn't. The Co-op Principles say membership in co-operatives is open “to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.”

The Rules of each co-op give the directors, or someone appointed by them, the right to “accept, refuse or postpone consideration of” an application for membership. Usually, too, this is “at their sole discretion.” This does not mean that the co-op can discriminate against anyone. However it does mean that a worker co-op has the right to refuse membership to someone who is not qualified for a particular job; or a housing co-op can restrict the number of members to the number of housing units available.

Source: Devco (used with permission)

Can Co-ops terminate a membership?

Yes they can. Just as co-op members have a right to select and accept new members, they have a right to terminate a membership. There are procedures for member termination outlined in the BC Co-op Act, and they require that a membership may be terminated only for cause, such as conduct that is materially detrimental to the co-op. Termination also requires the agreement of 2/3 of the co-op's directors. Normally a termination also requires the agreement of a majority of the membership. The co-op should include in its rules clear procedures for terminating a membership.

6. Meanings of co-op terms

Note: Appendix C shows how to apply the terminology to the process of incorporating your co-op.

Annual general meeting: a meeting held yearly by the co-operative for its members. At these meetings, members elect the board of directors, approve **Rule** changes and make many other decisions. Some co-ops may also have Special General Meetings, in order to make special decisions.

Articles of incorporation: the articles are the basic legal framework for your co-operative. They set out its purpose and its capital structure. The Memorandum of Association can be seen as the “constitution” of your co-op.

Assets: anything owned by a co-op which has commercial or exchange value: property, accounts receivable (money owed to the co-op), etc.

BC Cooperative Association Act: the legislation that governs the operations of co-operatives in BC.

Capital: this usually refers to money that is invested in the co-op, with the expectation that it will be repaid to investors. Sometimes however, grants are also used for capital and not repaid.

Credit Union Incorporation Act – a document regulating the operations of credit unions in BC.

Debenture: a form of security for a loan stating the terms of the loan, including when it is due and the rate of interest. The loan is usually long-term and guaranteed by the co-op’s assets.

Director: a person elected by the members to manage the co-op on their behalf and in their best interests. Boards of Directors set broad guidelines for the functioning of the co-op, manage the co-op’s overall strategic direction, and hire and supervise the senior manager of the co-op.

Dissolution: the process of formally closing down a legally incorporated co-operative, disposing of all its assets and settling all its liabilities. Voluntary dissolution must be agreed upon by a special resolution at a special general meeting.

Dividends: the portion of the co-op’s yearly surplus that is distributed to the owners of shares (shareholders), generally calculated as a percentage of the share capital paid up by the member. Many co-ops do not pay interest on membership shares and are restricted by their Rules from doing so.

Incorporation: the process by which individuals form a co-operative corporation. Incorporation allows you to use the word “co-op” in your organization name and gives legal status to your co-op. The members of an incorporated co-op are generally not personally liable for the debts and actions of the co-op.

Incorporators: the people who create a new co-operative. They legally incorporate the co-op, recruit its first **members**, and appoint its first **directors**.

Member: Any person who meets the co-op’s membership requirements, has been approved (as a member) by the board of directors and has bought (or subscribed to) any required membership shares.

Offering statement: In the case of co-ops that issue investment shares, this is a document that gives potential co-op investors the information they need in order to make an informed decision. The statement should indicate any risks associated with investing and a description of how the co-op will use the money it raises, a description of its business, the names and positions of its directors and officers, how the co-op finances its operations, and its current financial statements.

Officer: The main officers of a co-op are the Chair, President, Vice-President, Treasurer, Secretary and General Manager

Patronage return: the part of the surplus earned by a co-op in a given year that will be returned to the members. The amount returned is determined by the amount of business the member has done with the co-op (their “patronage.”)

Redeem: action taken by a co-op to buy back shares it has sold to its investors.

Rules: the internal bylaws and procedures that determine how the co-op will manage and govern its business activities, elect its board of directors, hold meetings and pass new internal rules.

Share: A share represents a portion of the total capital of a co-operative. Shareholders invest their money in a co-op as a condition of their membership. As with other businesses, **shares** in a co-op are not secured by any **assets** (what the co-op owns) and therefore are a risk investment. When a co-op dissolves, the shareholders may lose the amount of money they invested in the shares.

Share classes: a co-op *must* have at least one class of share – the membership share – and may have more than one class of shares. All classes of shares other than member shares are called investment shares, and each class may have different terms and conditions attached. Any co-op that issues any class of shares of a class that are not a membership share will become subject to the terms of the BC Securities Act.

Par value shares are shares with a fixed value, which is stated on the share certificate. All co-op member shares are par value. As long as the co-op is financially capable of redeeming its shares, par value shares are worth their original price.

Membership shares may be held only by members of the co-op. It is the member share that grants control rights to co-op members and only those holding member shares can vote in the co-op. Member shareholders also have the right to share in the surplus of the co-op but only after holders of **debentures** and preference shares have been paid. When a co-op dissolves, member shareholders receive the value of their investment after all the creditors of the co-op have been paid and *after* the owners of preference shares have received the value of their shares. Unlike other businesses, member shareholders have one vote regardless of the number of shares held.

Non-par Value or Preference shares give their holders certain capital rights that member shares do not have. These include the right to be paid a fixed percentage **dividend** before member shareholders. A co-ops investment shares are *preference shares*. In some co-ops preference shares are also held by members. Some co-ops provide preference shareholders the right to vote with respect to matters affecting their class of shares. In BC, representatives of preference or investment shares cannot exceed one third of a co-ops’ total number of directors.

Surplus: is what is left of the co-op’s income in any given year after it has paid all of its expenses for that year. In co-operatives, ‘profit’ is called surplus. Surplus may be put back into the co-operative to make it stronger, or returned to the members as patronage rebates.

Appendix A — Co-op Self Assessment Tool

1. What need/opportunity will the co-op meet?
2. Are there other organizations or businesses currently filling this need in your community? If so, list them.
3. How was this need met in the past?
4. Why does the opportunity exist now to develop a co-op to meet this need?
5. Who will benefit from the development of this co-op and how will they benefit?
6. Why are you considering the co-op model to meet this need? What is it about co-ops that appeal to you?
7. Will the co-op be for profit or not-for-profit?
8. How many people are working together to start the co-op?
9. What skills and resources do they bring to the group?
10. What other skills and resources will you need?
11. How will you access/develop these skills and resources?
12. Why do you want to start a business together rather than on your own?
13. What experiences have you and/or your group had in working collectively to achieve a goal?
14. What lessons did you learn from those experiences?
15. What is your strategy to build support for the co-op?
16. What steps will be needed to achieve your goal of setting up a co-op?
17. Co-op development requires talent, time and tenacity. Describe the commitment you and the other members of the group are prepared to make in the next 6 months/12 months/2 years.
18. What do you hope to gain from your participation in the co-op?
19. How will you finance the co-op? Consider the costs of both co-op development and the costs of operating the co-op enterprise.
20. Has there been any assessment of the feasibility or market for your product or service?
21. What further research or information do you need to help you make your decision to start a co-op?

Appendix B — Elements of the Feasibility Study

The group’s capacity to develop a co-op

- level of group development (consensus on the vision, skills, “key person” strengths/weaknesses)
- systems support
- access to funding
- capital available for investment/access to financing
- the motivation and expectations (key result areas, minimum acceptable outcomes)

The proposed product

- refined product definition
- packaging, promotion
- market profile (most available market, most lucrative market, market entry strategy, competitive products, popularity trends)
- production features and practices (how complex, how risky, special handling, etc.)

The production

- facilities (scale, capital costs, location)
- workers (skills requirements, employment challenges, number of workers, workplace safety)
- management production control
- availability of supply for key components, market scope and delivery

The revenue potential

- market analysis (market defined, scale, reach)
- pricing, price sensitivity
- potential revenue generation

Financial projections

- summary income statement/cash flow analysis to determine break-even point
- capital requirements

Summary conclusions

- summary of members’ expectations
- preparation for development process
- go/no-go factors during development
- summary of risks, challenges and potential benefits
- development outline (readiness assessment, key steps in development, timeline)

Source: Devco (used with permission)

Appendix C — Incorporation Questions

The following questions will need to be answered in order to draw up the four documents.

Membership

Who will the members be?

The Rules need to describe a typical member of the co-op. Eligibility can be very open: e.g. "anyone who can use the services of the co-op or support its objectives" or more specific: e.g., "anyone who is employed in the operations of the co-op" or "any artist who uses the facilities of the co-op." (You may also decide that not everyone who uses the co-op needs to be a member.)

If a group wants membership to include individuals or organizations who will use the co-op differently (e.g., some members will market their products through the co-op and others will purchase services from the co-op), it is possible to identify membership as one of several possibilities.

Another approach is to create different *classes of members*; the Rules can attach different conditions to each class in relation to number of membership shares to be purchased, representation on the board and so on. Co-ops with more than one type of member are often referred to as *multi-stakeholder* co-ops.

What obligations will members take on as members of the co-op?

Some of the obligations are statutory: a member must hold "the required number of membership shares." Other obligations may be specific to the co-op: e.g. "a member must be employed by the co-op," or "must market all or a certain percentage of a particular product s/he makes through the co-op."

What service(s) will the co-op provide to its members?

The Memorandum must describe the purpose for which the co-op is being created. Does it provide employment? Access to equipment or facilities? Services to market a product?

Do you want to place any legally binding restrictions on what the co-op does?

On incorporation, the founding members can specify in the Memorandum certain activities that the co-op will or will not undertake, e.g. it will only sell "organically grown products" or "authentically produced Squamish art." If members want to change the restriction in the future they will need to pass a special resolution and submit the change to the Corporate Registry in Victoria.

Do you want to legally structure the co-op as a not-for-profit co-op?

There are two elements that comprise "not-for-profit" status in societies: one is the "not-for-profit dissolution clause" that prohibits members from taking any residual value if the co-op should wind up; the other element prohibits members from withdrawing profits as dividends while the organization is in operation. There is no obligation to include either in your structure but if you wish to do so, the Memorandum of Incorporation must

specify the inclusion of these elements. Note that if you do include one or both elements, they will not necessarily give the co-op access to charitable status, nor will Canada Revenue Agency treat the co-op as a not-for-profit entity. However, not-for-profit status may give the co-op access to programs and funding that are only available to non-profit societies.

Since April, 2007, an amendment in the BC Co-op Act means that *non-profit co-ops* can now be incorporated as Community Service Co-ops and have similar status to non-profit societies. The change will facilitate the eligibility of community service co-ops for charitable status. For more information contact the BC Co-op Association (www.bcca.coop).

How will members get admitted to the co-op?

The Rules must identify the process that admits members to the co-op. It can be as simple as “approval by the Directors.” This doesn't prevent the co-op from having a "try-out" period before a member's application is accepted.

Under what circumstances would you want to be able to expel a member, and how would you want to go about that?

You must state in the Rules why and how a member may be expelled from the co-op. The Directors have the legal authority to expel a member, but the decision to do so must be passed by a special resolution of the members. The co-op may define the requirements of this resolution. The Rules also contain an appeal process, whereby a member being expelled may appeal this decision to the general membership.

Shares

How many types of shares do you need for the co-op?

A member is required by the BC Co-operative Association Act to "subscribe to" (which means purchase or commit to purchase) *at least one Membership Share*. The co-op has the ability to require that members must purchase more than one Membership Share. The number to be purchased can be changed as the co-op develops. Only members can purchase Membership Shares.

The Memorandum and Rules must also indicate if you want to have *Investment Shares* in addition to Membership Shares. If the co-op decides to have one or more classes of Investment Shares, terms would need to be attached to them to encourage their purchase for the purpose of raising capital. They may, for example, have preferred redemption conditions, higher rates of return, or other rights. Keep in mind that having Investment Shares can be handy for raising your capital, but it is a more complex structure and needs more administration and reporting to government.

Shares may be structured as *par value* shares or *non-par value* shares. Par value shares have a *face* or *nominal* value, such as \$10, \$25, or \$100. This is what a person pays to acquire a share; when the share is redeemed by the co-op it is redeemed at the same amount. Investment Shares are most often *non-par value*; they are purchased from the co-op at an agreed-upon amount, and as the co-op is successful, part of the earnings of the co-op are allocated to increasing the redemption value of these shares.

Members may not be required to purchase Investment Shares, but may be encouraged to do so by attaching attractive terms and conditions to them.

Ultimately the decision about how the co-op structures its capital must meet the needs of the members, but also the needs of the business plan. If the business plan is not completed at the point the co-op is being incorporated, it may make sense to include a class of Investment Shares even if they are not used immediately or even in the long run.

Note #1: If you include Investment Shares, you cannot also include the not-for-profit language described above.

Note #2: Establishing a class of Investment Shares means the co-op must comply with the BC Securities Act and regulations. Consultation with a lawyer who is familiar with the Securities Act (and with the Co-operative Association Act) is imperative.

Do you want to be able to sell Investment Shares to non-members?

In BC a co-op *may* structure its Investment Shares such that they can be sold to non-members, therefore giving the co-op potential access to a bigger pool of community capital. If a co-op does include this option the *non-member shareholders* must have some participation in decision-making and these conditions must be described in the Rules. There are also a few specific issues on which a co-op is required to provide *a separate voting forum* for holders of each class of Investment Shares. In this forum, members and non-member shareholders who hold Investment Shares have votes equal to the number of shares they hold (as is the case in a company structure).

It is important to consider how the co-op will maintain control over the enterprise if it issues Investment Shares to non-members.

How many shares can a member hold?

The Act does not limit how many Membership or Investment Shares a member can hold. The most common approach is to set the maximum as a specific number. You may choose not to place a maximum number. However the rules must state the limit if there is a limit, or state there is no limit.

Do you want to be able to transfer ownership of Membership Shares from one member to another, and if so, how?

The Rules must state if Membership Shares are *transferable* or *non-transferable*. If shares are non-transferable, only a member may "redeem" his/her shares, i.e., turn them in to the co-op and get the par value back in cash. The wording usually is "in a form that is agreeable to the board."

Do you want some sort of mechanism for members to "lend" money to the co-op?

The Rules can outline how members can make direct loans to the co-op on which the co-op could negotiate terms of repayment, interest, etc., or the loan payments could be "retained dividends" which would allow the co-op to issue dividends to its members, but retain the cash in the co-op to be used as needed.

Directors

How many members do you want on the board of directors? Would you like to be able to have a non-member or two as directors?

According to the Act, the board of directors may not be fewer than three people.

The co-op may have up to 20% of the total number of board members as non-members of the co-op. Sometimes it can be useful to have non-members on the board because of their expertise or because they represent a significant partner or sponsor. One way to attract Investment Shareholders could be for the Board to appoint a representative of the investment shareholders class to the board. If you want to have non-member directors, your rules must state the option.

What is the quorum for board meetings (i.e. the number of directors required to make official decisions at a meeting)?

The Rules must state the quorum, even if it is a simple majority of the directors.

The Act gives the board of directors "all the powers of the association" unless you specify otherwise in the Rules. Do you want to restrict the powers of the board in any way? For example, limit the amount of money they can spend or invest at any given time, or how they admit members into the co-op?

Any restriction you place on the powers of the board will generally mean they have to go to the general membership for its approval before carrying out a restricted activity.

How often do you want the co-op to have board meetings?

The frequency of board meeting is best stated in the Rules as the minimum number of board meetings. The co-op will be legally bound to have at least this number of meetings, and may have more, but not less.

General Meetings

How often do you want to require the co-op to have general meetings?

The Act requires the co-op to have one annual general meeting. You can have more as you wish but do not need to specify the number in a rule.

What do you think is a reasonable quorum for general meetings?

The quorum may be expressed in the Rules as a proportion of the total membership, as an absolute number or a combination of the two (e.g. "half the members but never fewer than ten")

Source: Devco (used with permission)

Appendix D — Resources

British Columbia Co-operative Association – www.bcca.coop

Canadian Co-operative Association - <http://www.coopscanada.coop/en/coopdev/InfoService>

Centre for Co-operative and Community-Based Economy - www.bcics.coop

CoopZone - www.coopzone.coop

Co-operative Secretariat - http://www.agr.gc.ca/rcc-src/coop/index_e.php?s1=info&page=intro