



Why do co-ops work?

Notes from the Co-operative Innovation Project — September 2015

Co-operative enterprises are highly innovative and effective business models. They often succeed where other businesses don't, and where government policy has been ineffective. They keep wealth local, and they build community capacity.

Entrepreneurs are constantly creating new businesses. That's good, because success rates are somewhat grim: 80% of new businesses “crash and burn” within the first 18 months according to *Bloomberg Business*. Statistics Canada numbers tell much the same story. After ten years, only 20% of private sector companies remain in business.

So, what can you do to build a business with a higher chance of success over a longer term? The answer could be: build a co-op. Research studies in Quebec, Alberta, and BC show that new co-ops are more likely to still be operating after ten years than other new business enterprises.

The Co-operative Innovation Project

From 2014-2015, the Centre for the Study of Co-operatives at the University of Saskatchewan led the Co-operative Innovation Project to explore the possibilities of the co-operative model to solve needs in rural and Aboriginal communities across western Canada.

Through on-line and telephone surveys and open events in rural and Aboriginal communities in Manitoba, Saskatchewan, Alberta, and British Columbia, the Co-operative Innovation Project asked: what are the needs in your community? And, what do you know about co-ops?

While every community has needs – and those can vary widely, depending on the community – a smaller proportion of rural and Aboriginal residents suggested co-operatives as a potential first solution to meet needs. Respondents pointed instead to governments and conventional businesses to provide solutions. But, there was skepticism that either would solve these needs within the next few years.

Why a co-op?

Co-ops do business differently. They:

- Respond to a common need
- Are democratic
- Adapt the model to the local context, politics and culture
- Build business capital in the community and keep wealth local
- Are owned by their members who also use the services
- Are a durable business model
- Invest in building the capacity of people and community
- Empower communities to create change
- Support social, environmental, and economic goals
- Can succeed in markets where conventional businesses fail

Why do co-ops work?

Co-ops often work in local markets and niche areas where neither conventional businesses nor government have succeeded. A co-op is created first and foremost to meet a need, while a conventional business is primarily built to make a profit. It's not that co-ops don't care about profit. To survive, they must develop a viable business model and operate efficiently. However, co-ops can often operate at a lower cost than conventional businesses, and may accept a lower rate of return if the primary purpose is to meet a local need, rather than make money. Because their members need the good or service the co-op brings in, co-ops generate a high level of buy-in and commitment.

Steady in rough times

Worldwide, in a study put forth by the International Labour Organization, co-ops proved to be a more resilient

and stable business model than conventional businesses, particularly during social or economic disruption.

It may be that the local nature of many co-operative businesses (except the largest co-ops) encourages individuals to offer increased support in times of economic turmoil. After all, they don't want to lose the service. In rural and Aboriginal communities, working together to solve problems and move through a crisis is a solid solution.

People like co-ops

Today's consumers demand that businesses "create shared value" for multiple stakeholders and demonstrate societal benefits that go beyond profit maximization for shareholders. Co-operatives can authentically demonstrate a commitment to local communities and member-owners, and directly show how the co-operative business values and creates societal benefits in a way that puts community first.

Getting off the Ground

Successful development of a co-operative business requires the combination of four critical factors: a well-defined and unmet need, business know-how, a willingness to work together, and knowledge of the co-operative model that can be used in innovative ways to address a community's needs.

Starting any business takes business planning, financing, marketing, hiring the right people, and so forth. All businesses, including co-ops, need business know-how to plan well to get the business off to a good start.

Starting a co-op requires another important dimension: a willingness to work together. The group dynamic part of the co-operative business model defines the vision, the strategy, and the goals for the co-op. It includes a clear idea of the end-user of the co-op – i.e., its member-owners. It's highly possible that such front-end work bringing people together might be why co-ops have a higher success rate. It takes energy and thought to create a strong member base for a co-op to grow.

Unlike a traditional investor-owned business, a co-op needs both a solid business case and solid group dynamics from its initial founding. When co-op members share the same vision for the business, can work together well, and can solve problems together, the co-operative business enterprise has a solid foundation.

What do co-ops need?

Like all businesses, co-ops need mentors. In addition to navigating the business economy, co-ops look to other

co-ops, co-op developers, and those knowledgeable about unique aspects of the co-op business model. Acting as sounding boards and connectors to offer perspective, advice, and 'cheerleading,' such mentors can mean the difference between a co-op that succeeds, and one that struggles to find its way.

There is also a role for economic development officers, particularly those working at the community level. Is there a need in a community that a traditional business model can't meet? Is there a need that is not a good fit for government intervention? Do you think the co-op model might be a better solution? Does the community have enough business know-how and willingness to work together? Then maybe it's time to explore a co-op.

Going forward

Co-ops work. So why don't more people use them?

There are a few obvious barriers: the co-op model isn't as well known as investor-owned businesses. There is not currently a Dragon's Den television show promoting co-ops, or a Donald Trump of co-ops. At least not yet.

Oftentimes, it's a matter of being creative. If people only recognize the most obvious kinds of co-ops – credit unions and retail/gas bar co-ops – then no one is being creative. Instead, what is needed is to see innovative uses of the co-op model, find new areas where the co-op model can be applied, and discover ways it can be adapted to work in a different context. There is a role here for communication and media, to bring new ideas and new stories to people, right where they are.

Government, from municipal and band councils to provincial to federal levels, also has a role. Co-ops do business differently – and they can be very successful. Do you know enough about co-ops? And, what are you doing to support the co-op business model?

What we know is that each Canadian community is different. Solving unique needs in a way that works for each community means that we need to find new models and new methods to solve local problems. The co-op model can build community success.



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