

# *Hometown* **ADVANTAGE**



**HOW A CO-OP CAN SUPPORT YOUR  
ECONOMIC DEVELOPMENT STRATEGY**

## How co-ops can support your economic development strategy

Economic development is a balancing act. Economic developers are expected to juggle a long list of priorities and to walk a tightrope of limited resources — all while looking for new strategies or opportunities to aid their communities.

To help, we want to remind you about a tool in your ec dev toolbox — co-operatives. Co-ops are an excellent tool to capitalize on your hometown's unique opportunities by using the resources (and people) you already have in your town or region.

In this eBook, we look at how and why co-operatives can be a good strategy for local groups to capitalize on what makes your town unique — that's your Hometown Advantage. Here's what you need to know to help people in your town get started with this flexible business structure.

### **SECTION 1**

Co-ops and rural Canada

### **SECTION 2**

What *actually* is a co-op?

### **SECTION 3**

How co-ops fit your economic development toolbox

### **SECTION 4**

A few practical considerations

## SECTION 1

# CO-OPS AND RURAL CANADA

Rural Canada is changing. Business owners are retiring, industries are shifting, and populations are aging. Living in a rural area looks different than it did 20 years ago — but we don't need to tell you that.

For rural communities to be sustainable, viable places for people to live, rural Canadians need to know they can face these changes and come out ahead. That's where co-ops come in.

## Co-ops are built with a DIY attitude

Rural Canadians aren't afraid to roll up their sleeves and get the job done. This DIY attitude is also integral to co-operatives. It's one of the reasons co-ops are a great fit for rural Canada.

Co-ops are great tools for solving problems. This isn't unique: it's true of all businesses. The difference is most business set out to solve the problems of their target customer, with the goal of making a profit. Co-ops take a slightly different approach. The people who start co-ops are the target customer. People create co-ops to solve their own problems or create their own opportunities. That means co-ops usually focus more on the service they provide than the profit they make.

According to recent data<sup>1</sup>, the most common reason start-ups fail is that they solve a problem no one has. Because co-ops are built to solve a problem their owners know they have, they're less likely to fall into this situation.

Often co-ops can thrive where there is a gap in products or services. If there is a desire for something in the community that the government or private sector isn't addressing, it might be the perfect opportunity to start a co-op. It just takes the people affected by that problem to use their DIY mindset and do something about it.

## Co-ops aren't industry or size specific

People often ask us, "Can \_\_\_\_\_ be a co-op?". The answer is almost always "yes". Co-ops can work in any industry and at any scale. The good or service they provide doesn't matter — what's important is figuring out if the co-op structure helps the business meet its goals (more on how this works later).

Co-operative businesses function well as non-profit service providers like daycares, preschools, care homes, and community halls. They can also work well as a multi-billion-dollar companies like Federated Co-operatives Limited, a fuel, grocery, and hardware supplier. A successful co-operative is less about industry or size than it is about what a group wants to accomplish.

## Co-ops use the resources you have

How do you access your Hometown Advantage? By taking a good look at what your community has and how you can use it to add services, access bigger markets, find cost savings, etc. Does your town have a strong arts scene? A lot of self-starters, independent producers, or willing volunteers? Is there an underused facility, or just a great idea waiting to be developed? These assets and more can be tapped and combined to create something new that makes your community a more attractive place to live and work.

It all starts with the people, businesses, and organizations you've already got.

1. <https://medium.com/swlh/why-90-of-startups-fail-and-what-to-do-about-it-b0af17b65059>

## SECTION 2

# WHAT ACTUALLY IS A CO-OP?

You've likely heard of co-ops before. You might even be a member of one — especially if you shop at a co-operative grocery store, or keep your money at a credit union. But you may not know that co-ops can be much more than that.

Here's the boring definition: a co-operative is an incorporated entity with limited liability based on one-member-one-vote governance structure where profit is distributed based on patronage, not ownership.

Doesn't this just make you want to get up and start a co-op? No? Well, let's explain it in another way.

There are three key components that all co-operatives have in common:

**1. They are owned by their members (ie. Shareholders).**

These members are (usually) the folks who use the services that the co-op provides.

**2. The “one member, one vote” rule.**

All members own an equal piece of their co-operative pie. Say a co-op only has three members — they all have an equal say in how that co-op should be run. But this remains true if the co-op has 100 or 1,000 members. No matter what, every member has one vote when members make a decision about the business.

**3. They distribute their profits back to their members.**

Co-ops can make a profit like any business, but their profits often go to the members based on how much they used the co-op that year.

People can build a co-op to meet any goal or vision. Since the goals of rural Canada are as unique as the towns themselves, co-ops are a great tool to help see them through.



## SECTION 3

# WHERE CO-OPS FIT IN YOUR RURAL ECONOMIC DEVELOPMENT STRATEGY

Every town is unique. So are its challenges. It's hard to say where the best opportunity for a co-operative will be in your town — there are a lot of possibilities.

Based on our experience working in small towns in rural Western Canada, here are some examples of how co-ops can advance your economic development priorities.



RedHat Co-op

### Fit # 1: Provide more opportunities or support for current businesses

Co-ops can be a way to give existing businesses a boost:

**Similar producers can share costs of packing, distributing, or adding value to their projects.**

Since 1966, a group of greenhouse vegetable growers from southern Alberta have been part of RedHat Co-op, which takes a lot of important tasks off their plates. While the individual growers focus on their crops, the co-op they own sorts, packages, markets, and ships their produce. By running a packing facility where producers can deliver their veggies to be distributed, the co-op frees up their time and resources.

Other great examples include the BC Eco Seed Co-op, owned by ecological, organic, non-GE seed producers who also benefit from centralized packing, branding, and distribution of their product. Seed cleaning co-ops are also common across the prairies and provide a service to their farmer members.

### Leverage private capital for investment in businesses

All businesses need to figure out where their start-up capital is going to come from — and that can be a challenge. The people of Sangudo, Alberta knew this well.

Instead of waiting for investors or entrepreneurs to start businesses in their town, they decided start the Sangudo Opportunity Development Co-op and use it to pool their investment dollars. With these funds, the co-op then invested in local projects.



Sangudo Opportunity Development Co-op

Also known as an investment co-op, the SODC provides a revolving loan fund to businesses. With its capital the SODC has invested in town revitalization, new houses, and an important meat processing business that employs and trains local youth — all with money from local residents and an emphasis on low and slow returns.

There are many ways investment co-ops can fit into your economic development strategy but using an investment fund to spur needed investment in business is one of the most common. If you have some businesses that need this kind of capital to get started or expand, an investment co-op is an excellent solution.



Lauren Melnyk – Pumpkin Patch Daycare Co-operative

## Fit #2: Make living (and maybe working) in your town more attractive and realistic

For communities to thrive, they need to be attractive places for people to live and work.

That means having a strong workforce that can access the goods and services they need without leaving the town. Co-ops can help.

### Co-ops can create opportunities to improve quality of life

As we saw with Sangudo, co-ops are great tools for securing services and amenities that can make your community attractive to newcomers and long-time residents alike.

A good quality of life means having good places for people to live, work, and spend money. Consider how your town measures up. What housing do you have? What about childcare options? What stores, markets, festivals can people find in your region?

Co-ops can be excellent ways to capture any of these opportunities. Many farmers' markets are co-operatives, as are plenty of daycare centres.

So if there are people in your town who want to sell their produce or need a place for their kids to go during the day, they could take a DIY approach and start their own co-ops.

### Case Study – The Pumpkin Patch, a rural solution to daycare

In Smoky Lake — population 960 — there had never been a daycare facility, and parents always had to cobble together childcare plans. They made it work, but a group from the community decided there must be a better way.

“We have so many farm families that had to just figure [childcare] out themselves,” said Lauren Melnyk, parent, founder, and now director of the Pumpkin Patch Daycare Co-operative. “A lot of moms kid-swapped throughout the week, they’d all take kids one day a week, and then on their day off they got all their stuff done... People just babysat for each other, free of charge – you take my kid I’ll take your kid.”

The Pumpkin Patch is the first co-operative daycare to open in Alberta and required a community effort to get up and running.

Most of the toys, games, and furniture that fill the centre were donated by community members and

saved the co-op precious start-up dollars. The Kinsmen Club donated money for operations and plans to give more for indoor play equipment. The Kinettes provided funds for a six-seat stroller. A local dental office even donated a year's worth of gloves for staff to use when changing diapers. The Town and the County both contributed funds and sent representatives to sit on the board.

While they were hunting for a suitable, affordable location, the school superintendent contacted the co-op to say they could provide room in the school, rent-free.

The relationship with the school is win-win-win... win. The daycare gets a space at no cost. The school can say that it is being fully utilized (an important factor, given the town is pushing for a new school). Plus, the kids in daycare become familiar and comfortable with the building before they start kindergarten. For parents with school-age kids, they can drop off kids at one safe place, and have extended hours to do so.

Given the success of The Pumpkin Patch, people from nearby communities have started approaching Melnyk and others to find out how they did it. She encourages them to use the co-op model, and says it's a steep learning curve, but a great way to get the community involved.

"All these really cool things are coming about, and I think it's because it's co-operative," she said. "It wouldn't have happened otherwise."

### **Co-ops can provide creative solutions for your vacant buildings**

It's easy to think of vacant buildings as an eyesore — but they can also provide opportunities. And co-ops are great for unlocking them.

Take The Gathering Co-op in northern Alberta. In this small agricultural community, farmers wanted a place where they could sell what they produce, directly to consumers. Just outside their town was an old, run-down former restaurant that had sat empty for a few years.

A group of innovative producers formed a co-op and bought the building, with the intent of



renovating the space into a market and café. The co-op will have a commercial kitchen to turn farmers' produce into ready-made takeaway meals for travelers or to provide sit-down dining for customers. Their goal is to create a welcoming place for people to buy fresh produce or a home-cooked meal, with some local art on the walls and even a stage for local musicians to play.

This co-op will not only provide a new source of income for its producer members, but clean up an otherwise derelict building. Win-win!

### **Co-ops are great for maintaining cultural or recreational services**

In 1980, a small group of artists in Rosthern, Saskatchewan wanted to highlight their rich arts community.

When the local rail station shut down, they saw an opportunity to purchase the station and convert it into a multi-purpose arts centre, with a cafe, art gallery, historical centre, and an impressive theatre and stage. How? They formed a co-op.

To this day, the co-op runs the Station Arts Centre where local people contribute and enjoy amazing visual and performance art right in their hometown.





### **Fit # 3: Business continuity and succession**

Four in 10 owners of small and medium sized businesses are expected to retire in the next few years. In every town, Main Street businesses will have to find a new owner or owners to keep them running. And co-ops can help.

In Prince Albert, SK, employees bought and now run the Daily Herald newspaper. In Westlock, AB, farmers bought the grain terminals that were about to be closed down. In many communities, consumers own the co-op stores where they shop. That's sustainability.

#### **Case Study – Saving the grain terminal in Westlock, AB**

When farmers in Westlock, Alberta learned that the terminal where they sold their grain was going to be closed, they took action. The closure would have meant 12 lost local jobs and farmers shipping grain over an hour to the next terminal. So when they couldn't find a buyer for the facility, they bought it themselves.

Nearly 270 farmers and community members incorporated a co-op in 2002 and raised the money to take over and run the terminals. The multi-stakeholder, New Generation co-op has a complex structure, but one that works perfectly for them. With seven different share classes to help them finance the project and meet the needs of the members, it shows how adaptable the co-op model can be.

With a critical piece of infrastructure preserved, Westlock Terminals ensures farmers can get their grain to market and the CN Rail line remains active — and that members see an annual return on their investment.

### **The common thread?**

In each of these examples, a group of people came together, zeroed in on what they really needed, and then formed a co-op to make it happen. These communities realized they couldn't wait around for someone else to come in and save the day — so they did it themselves, with the resources they had.

## SECTION 4

# LEGAL, FINANCIAL AND PRACTICAL CONSIDERATIONS

Every business model, framework, or approach has its advantages. Co-ops are no exception. To make sure structuring your business or initiative as a co-operative is the right fit, here are some of the considerations:

## You need a group of incorporating members/owners

There's no such thing as a co-op of one person. How many members you need to start a co-op depends on where you live, but the minimum is three. (In B.C., Alberta, and Manitoba, three is the minimum — but in Saskatchewan you need six.)

Keep in mind that this number is the bare minimum — depending on the business, the group may want to start out with more. Also remember — this is just the incorporating group. Co-ops can always add more members later.

## Co-ops are owned by the people who use their services

Co-ops work best when a group of people come together to solve a problem they have in common. If the goal of the business is solely to provide a good or service to another group a co-op might not be the right fit.

The beauty of co-ops is they are owned by the people who use them, and these are the people who make the decisions about the co-op's operations and direction. Because who knows what you need better than you do? This is also where the "one member, one vote" rule of co-ops comes in: not only are the owners the people who use it, they all have an equal amount of power (one vote) when it's time to make a decision.

There are some exceptions to this, mostly related to community

service co-operatives (read more about this [here](#) and [here](#)).

## Co-ops can raise money most ways a corporation can

Co-ops need cash to get started. To raise some money, they can turn to loans, selling investment and membership shares, or holding fundraisers to get that initial capital.

Formalizing the financing agreement allows for everyone to ensure that their investment in the business is reasonably secure, and there is oversight and compliance. The co-operative business can then apply for grants and loans in addition to member equity investment. It may also choose to issue investment shares.

To figure out how to raise the money, the first step is to be clear about what the business will do. Will it need to purchase a building, equipment, and inventory? Or will it be not-for-profit and seek grant funding?

The good news is, whatever route a group chooses, co-ops tend to have as much luck as other types of businesses when securing things like loans. According to 2017 Stats Canada data, over 90% of existing co-ops that requested debt financing were approved.

It's important to remember that an investor can't buy ownership of a co-op. That "one member, one vote" rule means that no matter how much money someone has invested in a co-op, they still have the same amount of power. This is much different from corporations, where your voting power depends on how many shares you own in the company.

If you do have questions about financing a co-op, we are happy to help. Request support [here](#).

## Co-ops limit liability for those involved

Taking on risk is one of the scariest parts of starting any business. It's fair that each owner will want to make sure that the business's losses and decisions don't personally put them at risk.

The good news? Co-ops limit the liability of their members.

Now, this isn't to say you get carte blanche just because you're in a co-op. Some financial institutions may make board members to take some personal responsibility for a loan, for example.

But it means that your members won't bear the brunt if things go south.

## Co-ops formalize a governance relationship

Many of these considerations are important so your friends don't become your enemies if things go bad. That's also true for governance of the business, or who gets to decide what. Starting a co-operative gives you the structure to govern the business, and does so in a one member, one vote way. The model can also accommodate complex business relationships as each co-op maintains its own rules and operating procedures.

## Co-ops and taxes

Co-operatives pay corporate tax rates (unless they're non-profit), which are lower than personal income tax rates. They can also distribute profits back to their members before paying tax. This should be done strategically. A consumer co-op, for example, can distribute its profits back to members knowing that it will lower its taxable income, but won't be taxed as personal income for the members. For a worker co-op, however, a share of the profits given back to its members will likely count as taxable income.

*Do you want to start a co-op in your community? Co-operatives First has the tools, resources, and connections to support you. Check it out at [cooperativesfirst.com/start-a-coop](https://cooperativesfirst.com/start-a-coop).*





## About Co-operatives First

Co-operatives First is a non-profit organization funded by Federated Co-operatives Limited and the Co-operative Retailing System. Founded in 2015, the organization provides co-op start-up resources, such as feasibility studies, business plans, and incorporation support to rural and Indigenous co-op entrepreneurs across western Canada. Our goal is to help leaders in these communities build new businesses, grow local economies, and support community development.

More co-ops mean more jobs, more services, and more business on Main Streets throughout western Canada. Through our courses, workshops, resources, and consultation, we deliver local solutions for economic development.

These services are all made available through the generous funding and support of the Co-operatives Retailing System and Federated Co-operatives Limited. That means we can offer most of our services at no cost to you.

[Contact us today to learn more.](#)

