

BUSINESS PLANNING FOR CO-OPERATIVES



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

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All co-operatives, regardless of their size or type need a business plan. A business plan helps clarify the activities for the co-operative and identifies the logistics, resources and finances needed for it to be successful.

All co-operatives should be able to prepare forecast financial statements that identify how the co-operative will fund its first year of operation. This information establishes what the co-operative's capital and finance needs will be. The rules for a co-operative must set out the minimum share capital required for membership or the amount of an annual subscription. For distributing co-operatives, the business plan is an essential component of your disclosure statement.

The founding members, sometimes referred to as 'promoters', must prepare a constitution (rules) and, if necessary, a disclosure statement that clearly show what the co-operative's primary activities are, how they will be carried out and what financial or other commitment is required from members. This guide will take you through the range of questions to consider as part of your business plan.

At the end of the guide, there are sample forecast profit & loss, and cash flow statements. Forecast financial statements are mandatory for distributing co-operatives, and may be required for non-distributing co-operatives as part of the formation process under Australian law.

Business Planning for Co-operatives is not intended as legal or financial advice. The promoters of a new co-operative should seek such advice from specialists to ensure that the information that you provide is accurate or based on reasonable assumptions. Any forecasts regarding financial or other material matters need to be carefully assessed. Providing either misleading or deceptive information and omitting to include material information may lead to liability for loss suffered by persons who rely on the information.

SUGGESTED STRUCTURE - BUSINESS PLAN

As you work your way through this guide, use the suggested structure set out below, so that you can add information into your draft Business Plan.

- 1. Introduction to the Co-operative:**
 - 1.1 Purpose and objectives**
 - 1.2 Member value proposition**

- 2. Operating Context:**
 - 2.2 Operating environment**
 - 2.3 Key opportunities and challenges**

- 3. Resources and Strategy:**
 - 3.1 Operations (products / services)**
 - 3.2 Business establishment, Due diligence and Compliance**
 - 3.3 Financial resources (Income)**
 - 3.4 Human resources**
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 - 3.6 Marketing strategy**
 - 3.7 Member engagement strategy**
 - 3.8 Risk management strategy**

- 4. Forecast Financial Statements:**
 - 4.1 Profit and loss statement**
 - 4.2 Cash flow statement**

1. Introduction to the co-operative

In this section, you should 'set the scene' for the co-operative by explaining the ways in which the co-op will create, protect and return value to its members.

1.1 Purpose and objectives

The purpose and objectives explain what the co-op intends to do for its members. This section should describe the longer-term goal or vision of the co-op, and the shorter-term goals that will help the co-op to achieve its vision.

To prepare a purpose statement and objectives, consider the following:

- What is the overarching vision of the co-op? Why does the co-op exist? What problem does it aim to solve?
- What must the co-op do to achieve this vision and how will it do this? Prepare a simple purpose statement using the following structure: "The co-operative will [achieve vision] by [doing primary activities]."

An example, "The co-operative will open new markets for producers by creating and promoting a strong brand that identifies locality and production ethics."

- What are the main objectives for the first year of operations?

It is unlikely that the purpose will be achieved in the first year of operation so take the time to realistically identify what should be in place after 12 months. It may be modest. Setting up governance and internal processes as well as any business registration may be enough, what can be achieved will depend on available finance and resources.

1.2 Member value proposition

The member value proposition is essentially a sales pitch to potential members. It is usually a short statement or list that clearly explains what benefits a member can expect by joining the co-op. The member value proposition should be reviewed over time and will be central to all the co-operative's business planning and communications.

To prepare a member value proposition, consider the following:

- What are the primary activities of the co-operative?
- What are the main benefits that members receive? For example: rebates, bonus shares, member only discounts, dividend payments, access to member only services or information, savings or cost benefits to each member's operations, access to a community of knowledge and experience etc.
- What is the unique value proposition that the co-op can offer to its members?
- Will the co-op's services fulfil an existing need or create a new form of business for members? If possible, can you reasonably estimate the value of the service – for example, the cost savings through bulk purchasing or sharing resources?

2. Operating context

Whether you are forming a local community based co-op or a potentially large enterprise co-operative looking to export markets, knowing your community and market context is very important.

2.1 Operating environment

To prepare an overview of your co-op's operating environment, consider the following:

- What is the wider market context in which the co-op will operate?
- Are there any aspects of the wider political or economic context that will affect the co-op's operations? What are these aspects?
- Are there any aspects of the scientific or technological context will affect the co-op's operations? What are these aspects?
- Are there any aspects of the social or cultural context will affect the co-op's operations? What are these aspects?
- What other aspects of the wider operating context are relevant to the co-op?
- What business structure will the co-operative have to maximise benefits to members?
- Will the co-operative be for-profit or not for profit?
- Will the co-operative seek to benefit only members, or a broader community or category of people?

2.2 Key opportunities and challenges

To prepare an overview of your co-op's key opportunities and challenges, consider the following:

- What are some opportunities in the external operating environment? Is there a gap in the market?
- Who are some of the co-op's important external stakeholders?
- What stakeholder relationships does the co-op need to develop?
- What are some of the challenges in the external operating environment?
- Does the co-op have any competitors? What competitive advantage can the co-op achieve?
- What strategies will the co-op adopt to overcome these challenges, or minimise their impact?

3. Resources and strategy

This section should contain detailed information about your co-operative's first year of operations – what it will do, how it will do it and what resources it will use to do it.

In addition to this, this section should consider how your co-op will communicate with members, market its services to attract new members, and manage risks.

The information that you develop in this section will then be used to prepare forecast financial statements. A sample forecast profit and loss statement is provided at the end of this guide, to demonstrate the relationship between business planning, and financial planning.

3.1 Operations (products / services)

To prepare an overview of the co-op's operations, consider the following:

- What products / services will the co-op provide in the first year of operations? Specify or list what products or services the co-op can provide in the first year after registration. Remember that it will take some time to set up the systems and administration for the co-op, so be realistic about what the co-op can provide in its first year.
- Are there any direct costs associated with these products or services? For example: wholesale cost of product purchase.
- What products, services or activities are likely or planned to be available after the first year or when is it likely that the primary activities of the co-op will be ready to operate?
- Will the co-op undertake any market research, product or service development? What are the costs associated with this market research, product or service development?
- What are the main administrative and IT costs to support these operations? For example: accounting software, computers and internet, IT support.
- Will the co-op need to engage a book-keeper, an accountant or an auditor (or other professional) and, if so, what are the likely costs?

3.2 Business establishment, Due diligence & Compliance

As promoters of a new co-operative, it is important that new members can trust that your research and calculations about income and costs has been done carefully. If your information about how the co-operative will operate and your forecast financial information has been prepared with assistance or independent advice, it is both important and valuable to let new and potential members know.

To ensure transparency, it is important to be clear about the costs associated with starting up the co-op and the interests of the promoters in the co-op.

To prepare information about due diligence and start-up costs, consider the following:

- Have the promoters received any advice in starting-up the co-op? What type of advice, and how much did it cost? For example: advice from accountants, lawyers, financial advisers or business consultants. If you have written consent from that professional, you may choose to include this advice as part of the Business Plan.
- What are the other costs associated with forming the co-operative? For example: registration costs, legal fees, room hire or travel costs for holding meetings.
- What interests do the promoters have in starting-up the co-operative? Have they been

paid, or will they receive financial gain, for their services? Are they seeking a remunerated position in the co-operative and do they have the skills and experience to do so?

- What is the co-op's regulatory context? What does it need to do in terms of compliance? For example: annual reporting, workplace health and acquittal obligations to funding bodies, business registration, taxation etc.
- Are there any ongoing costs associated with compliance? For example: staff time, legal or consulting fees.

3.3 Financial resources (Income)

This section addresses the co-op's forecast income for its first year of operations.

You will probably need to come back to this section a few times, as you begin to develop a clearer picture of the co-op's forecast expenditure for its first year of operations.

Co-operatives are no different from many start-up businesses. Money for operations must come from members themselves, the sale of products or services or from borrowings.

Distributing co-ops and some non-distributing co-ops have the capacity to raise capital by issuing shares to members. A non-distributing co-operative without share capital must rely on member subscriptions, grants or income from trading activities.

To prepare an overview of the financial resources that the co-op will have available in the first year of operations, consider the following:

- What are the start-up capital requirements for the co-op? Can these start-up capital requirements be wholly sourced from member shares or subscriptions?
- Is there a need for ongoing member financial contributions using annual subscriptions? Will annual subscriptions be sufficient or do you need share capital?
- What will be the main incomes streams for the first year of operations and what assumptions have been used to estimate this income?
- How many members will the co-op likely have in the first year of operations? What evidence do you have to support this assumption? Have the promoters undertaken any member feasibility analysis?
- How much will each member contribute (either through share capital, annual subscriptions or by buying goods or services from the co-op)?
- Will the co-op generate any income in its first year of operations through selling goods or services to non-members?
- How much capital, if any, does the co-op have reliable access to from outside the member base? For example: bank loans, grant funding, co-operative capital unit (CCU) or debenture offers. How much interest will the co-op pay for borrowings? How much will it cost to issue debt securities or administer grants? (Some fundraising activities can trigger financial audit requirements which will add to annual operating costs).

3.4 Human resources

To prepare an overview of the human resources that the co-op has, and will need as its operations grow, consider the following:

- What skills do the first directors have?

- Will there be any initial staff or consultants, if so, what are their skills and the costs of their employment? For example: wages and allowances, staff training and education, superannuation, workers' compensation insurances, mediation and counselling services.
- Are members or directors expected to volunteer? If volunteer time and expertise is relied upon, is this to be for the long term or simply at start-up? What tasks will be done by volunteers and will volunteers receive benefits? Will there be a method of valuing volunteer contributions, such as a 'return on work done' calculation?

3.5 Asset requirements & logistics

To prepare an overview of asset requirements and logistics, consider the following:

- What assets does the co-op own? What are the costs associated with these assets? For example: rates, insurances, repairs and maintenance, depreciation allowances.
- How will the co-op provide services? What type of logistical costs are involved? For example: utilities, fuel, phone and internet and software licences.
- What assets does the co-op need to acquire or rent to provide services to members? What are the costs associated with these assets? For example: purchase costs, rental payments, taxation and legal costs.
- Does the co-op require any additional licenses, permits or planning approvals to run its operations?

3.6 Marketing strategy

Because the creation, protection and return of value to members is at the heart of all co-operatives, a co-op's marketing strategy is closely linked with its member engagement strategy (see below). Depending on the specific context and needs of your co-op, you may choose to keep these two strategies separate. Alternatively, you may choose to combine these two strategies.

To prepare a marketing strategy, consider the following:

- Who is the co-op's target market? Are there one or more groups that will buy the co-op's products or use its services? Has the price for those products or services been tested with those targets?
- For each target market group, what are the specific needs of this group? How can the co-op engage with this group and what marketing strategies will the co-op use, if any? What are the likely benefits of a successful marketing strategy?
- What are the costs associated with these marketing strategies? Are these costs reasonable and appropriate?

3.7 Member engagement strategy

Without effective member engagement, a co-op will not attract members.

Without members, there is no co-operative.

To prepare a member engagement strategy, consider the following:

- Who will be the members of the co-op? Why will they join the co-op?
- What other groups might be interested in joining the co-op?

Why / why not might these groups choose to join the co-op?

- Why might members choose to leave the co-op? How will member retention be addressed?
- For each group, what are their needs and interests? How will the co-op learn more about their needs and interests? What are group's communication preferences?
- Are the co-op's members all within a local area? Are the co-op's members geographically diverse? Will face to face forms of member engagement work? If technology is to be used, what are the barriers and opportunities?
- What type of additional benefits can the co-op provide to engage more deeply with its members? For example: information nights, newsletters, competitions.
- How much will these member engagement strategies cost?

3.8 Risk management strategy

To prepare a risk management strategy, promoters should identify the key risks to the co-operative achieving its objectives, across a range of categories. Possible categories of risk might include: financial, legal, health and safety, membership, governance, political and environmental. Managing those risks will involve costs. Sometimes this will be through insurance or it may be through other practical activities, such as employing someone to monitor the risk.

For each risk that the promoters identify, consider the following:

- What are the likely causes of this risk?
- What are the consequences of this risk? How serious are the consequences?
- What types of strategies can the co-op use to minimise, mitigate or manage these risks?
- How much will these risk management strategies cost?
- What business or public liability insurance is required? Are there any professional indemnity costs required? Will the co-operative need to cover employees for workers' compensation, or volunteers whilst working for the co-operative?

4. Forecast financial statements

You should be able to estimate the income and expenses by making reasonable assumptions based on the information you have gathered in the previous sections of this guide. Forecast financial statements are required as part of a disclosure statement for formation for distributing co-ops and they may be required for non-distributing co-ops. They will provide a simple budget for the first year of operations and help you to track progress towards the co-operative's purpose and may be developed with the support of book-keeper or accountant.

You should prepare a forecast profit and loss statement (income statement) and a cash flow statement

On the next page, you will find samples for a forecast profit and loss statement and cash flow statement. They can be adjusted for co-ops with or without share capital and there are references to sections in the guide to help you include the possible range of components for each item.

Please note – these are basic samples only. More detailed financial statements will likely also include additional notes or breakdowns of income and expenses. Each co-op will be different. The information that you provide to members about financial forecasts must be accurate or based on reasonable assumptions. If you are unsure about any aspects of the financial statements you should consult a professional person for assistance. Providing inaccurate or unsupported information without qualification may be misleading and may lead to liability for promoters for loss suffered by persons who rely on the information.

SAMPLE: FORECAST PROFIT AND LOSS (INCOME STATEMENT)

INCOME

Membership application fees ¹ (100 members x \$10)	1 000
Annual subscriptions ² (100 members x \$100)	10 000
Sales to members ³	100 000
Sales to non-members	20 000
Funding grants ⁴	24 000
Loan	20 000
TOTAL INCOME	175 000

EXPENSES

Operating costs (see section 3.1)	
Purchase of wholesale products	25 000
Product development	10 000
Market research	1 000
Administration (printing, stationary etc.)	500
IT & computers	500
Accounting	500
Financial audit ⁵	5 000
Subtotal	42 500

Business establishment, due diligence & compliance costs (see section 3.2)

Registration fees	400
Formation meeting	100
Legal fees for business establishment	3 000
Taxation and accounting advisory	2 000
Legal Fees ⁶	1 000
Accounting fees	500
Workplace Health and Safety Training	500
Licensing	1 500
Subtotal	9 000

Financial resources (see section 3.3)

Loan repayments	1 000
Bank fees & interest	25
Subtotal	1 025

Human resources (see section 3.4)

Directors' Meetings	1 000
Wages & Allowances	50 000
Superannuation	4 000
Workers' Compensation Insurances	500
Director & Staff Training	2 500
Subtotal	58 000

Assets & logistics (see section 3.5)

Motor vehicle	15 000
Website establishment	2 000
Information technology	2 000
Other equipment	2 000
Office rental payments	10 000
Vehicle insurance	1 000
Fuel costs	1 000
Repairs and maintenance	1 000
Cleaning	500
Depreciation expense	1 000
Subtotal	35 500

Marketing & member engagement (see sections 3.6 and 3.7)

Website maintenance costs	750
General Meetings	500
Newsletter	250
Information Nights x 2	500
Subtotal	2 000

Risk Management (see section 3.8)⁷

Public Liability Insurance	500
Product insurance	1 000
Professional indemnity insurance	1 000
Directors' & officers' insurance	500
First Aid Kit	100
Subtotal	3 100

TOTAL EXPENSES	151 125
GROSS PROFIT / (LOSS) before tax	23 875
TAX - 27.5% of income⁸	17 600
NET PROFIT / (LOSS) after tax	6 275

¹Application fees for membership to cover cost of considering applications. Calculate by assuming the expected member numbers multiplied by the fee.

²If there is to be an annual subscription, it should be costed here: number of expected members x annual subscription. Note: This is not share capital. If your co-op has share capital, it should be recorded in the cash flow statement and balance sheet.

³Sales may be minimal in the 1st year. Estimates of sales income needs to be calculated carefully.

⁴If the grant is for more than one year, ensure that you only insert the amount for the first year. Include a note about the terms of the grant.

⁵Promoters need to determine whether an audit is required and estimate the cost.

⁶Legal fees could include any legal advice, registration fees or formation meeting costs.

⁷Note: Only include those expenses not already itemised.

⁸Note: The tax rate is included at normal company tax rate. Your co-op may be eligible for tax exemption or concessions, and some income may not be taxable. Accounting or tax professionals can assist with this.

SAMPLE: CASH FLOW STATEMENT

CASH RECEIPTS	
Shares issued to members ⁹	10 000
Membership application fees ¹⁰	1 000
Annual subscriptions ¹¹	10 000
Funding grants received	24 000
Loan	20 000
Revenue from sales ¹²	120 000
GST collected*	12 000
Total Cash Receipts	197 000
CASH PAID OUT (GST included)	
Operating costs (see section 3.1)	42 500
Due diligence, business establishment & compliance costs (see section 3.2)	9 000
Financial resources (see section 3.3)	1 025
Human resources (see section 3.4)	58 000
Assets & logistics (see section 3.5)	35 500
Marketing & member engagement (see sections 3.6 & 3.7)	2 000
Risk management (see 3.8 above)	3 100
Total Cash Paid Out	151 125
NET CASH INFLOWS	45 875
OPENING BANK BALANCE	0
CLOSING BANK BALANCE	1 000

⁹Note: This applies to co-ops with share capital only This record is where the amount of expected share capital is shown: expected number of member x share capital bought.

¹⁰This is the same figure as disclosed in the forecast Profit and Loss statement.

¹¹This is the same figure as disclosed in the forecast Profit and Loss statement

¹²This is the total of all income received from goods or services sold.



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