



Farmer Co-ops & Private Corporations

Choosing a Business Structure



Steve Cavell – Organic Meadow
(Ontario's best farmers' Coop)

Tom Manley – Homestead Organics
(Ontario's best corporation)



Steve

DISCLAIMER



- We are not lawyers.
- We are not accountants.
- We are not farmers.

So How Can We Discuss This?

- Steve –

- Works for a farmer owned co-op which owns a private corporation.
- Worked for large multinational companies... public and private.
- Worked for a small company in a partnership.

- Tom –

- Grew up on a family dairy farm.
- Worked in the Canadian Forces, and a Crown Corp.
- Worked in sales & management for Bell Canada.
- Presided for 2 years in a multi-ethnic housing coop.
- Owns and runs Homestead Organics for 11 years.

- We both have the benefit of experience.

CORPORATIONS



- Public
 - Trade on a stock market
 - Expensive to establish and maintain
 - Need critical mass
 - Fairly heavily regulated

CORPORATIONS

- Private - Multiple owners
 - Often called partners.
 - Incorporated with limited liability, not to confuse with a limited liability partnership which is not a corporation.
 - Equity based on common shares
 - Different from silent investors (preferred shareholders).
 - Shared risk, decisions, and rewards.
 - Equal share or not among the owners.
 - Federally or provincially regulated
 - The common structure of New Age Cooperatives

CORPORATIONS

- Private - Sole Owner
 - Incorporated with limited liability.
 - Provincially or federally regulated.
 - Single owner of common shares has financial flexibility.
 - Clear and easy decision making
 - No accountability to others.
 - No sharing of rewards.
 - But silent investors still share some risk.
 - Preferred shareholders can still lose out.

CO-OPERATIVES

- Federally registered
 - Expensive to set up and maintain
 - Generally cross borders
 - Should be large
 - Complex structure of governance (board of directors, general manager, member involvement)

CO-OPERATIVES

- Provincially registered
 - Smaller
 - Less expensive
 - Less complicated
 - Can still cross borders
 - More common
 - Still needs structure of governance (board of directors, general manager, member involvement)

Steve

REALLY BIG QUESTION #1

- Is the business concept workable?
 - Are there ready markets?
 - Are there reliable supplies?
 - Do you have a value added process/product?
 - What is the competition?
 - Can it make money?
 - Do you have the financing?
 - Do you have the skills and resources?

Steve

WHY IS IT QUESTION #1?

- Because most businesses fail quickly because entrepreneurs
 - Don't ask the questions
 - Fool themselves with wishful thinking
 - Start by producing and then wonder about the market....if you grow it they may not come?
- And it does not matter if you are a Coop or a private business.

REALLY BIG QUESTION #2

- How much money will it take?
 - Location & buildings
 - Equipment
 - Working capital
 - Staff
 - Fees and deposits
 - Market development and sales ramp-up.

WHY IS THIS QUESTION # 2?

- Because ...
 - Businesses that fail within the first year or two of operation generally are undercapitalized and run out of money.
 - It is harder to raise money in the beginning and the early years.

REALLY BIG QUESTION #3

- How will I raise the money?
 - I have enough
 - Relatives and Friends
 - Banks and other lenders
 - Sell shares or find partners
 - Use venture capital
 - Cooperate with other people who have a vested interest in the business and who produce a similar product or target a similar market.

WHY IS THIS QUESTION # 3?



- Because your method of assembling capital will determine ...
 - Your choice between a corporation and a coop.
 - The legal and financial structure of your corporation.

REALLY BIG QUESTION #4

- Who am I and what do I want?
 - Self-centered loner or genuine team player
 - Control freak who is always right or consensus builder
 - Personally ambitious or community motivated.
 - Dreamer or pragmatist and realist.
 - Initiator, leader, competitor, collaborator, or follower.
 - Have lots of spare time or on a tight time lime.
 - Building a community or building a legacy.
 - Being in charge or being a team member.

WHY IS THIS QUESTION # 4?

- Because your personality and objectives will make you more comfortable as:
 - An employee
 - A business owner
 - An active or passive cooperator
 - An active or passive investor
 - A true believer and tireless worker in a charitable NGO.

Steve

I think a co-op is for me ...

- Business lends well to a team approach.
- Voluntary, open, and equal membership
 - Democratic member control
 - Member economic participation
 - Reduced personal autonomy and independence
 - Like the community building aspect
 - Mutual education, training & information
 - Co-operation among co-ops
- Do not have the required resources alone.
 - Work better in a team than leading an initiative.
 - Don't want to carry the risks alone.
 - Need to pool capital, skills, and production capacity.

Tom

A private business is for me...

- Business lends well to a private venture.
- The dream is not shared by others
 - Cannot achieve consensus on direction
 - I do not have time to wait for everyone
 - I am carrying too much of the load.
- I have the required capital and skills.
 - I need to be in charge
 - I need more personal financial return
 - I can't stand meetings, bureaucracy, politics.

Nevertheless...

- Both successful and ethical corporations and cooperatives can and should:
 - Not be about me and only me
 - Develop the people, families and communities.
 - Sustain agriculture and rural lifestyles
 - Give back to the community
 - Balance interests of customers, owners, employees.
 - Deliver good products, good service, and good prices.
- Things go bad when someone gets greedy.

Steve

TIME TO STOP AND THINK



- Be honest with yourself
- Challenge your thinking
- Think 5, 10, 15 years out
- Talk to existing co-ops
- Talk to co-ops that failed
- Talk to entrepreneurs
- Consider your exit strategy
 - Resigning your share versus selling your business.

Steve

BUILD THE FRAMEWORK

- Both coops and corps need an identity
- Mission ... to sell “x” to “y” and use crops, make profits or not, share or not
- Vision ... the enterprise will do this over this period of time
- Values .. This is who we are and how we will behave

GET THE EXPERTS



- Accountant
- Lawyer
- Banker
- Advisors
 - marketing
 - business
 - finance
 - technical expertise

GET THE INVESTORS

- Co-op members
- Shareholders
- Lenders
- Grants
- Partners



BUILD A TIMELINE

- Business structure
- Finances
- Markets
- Supplies
- Infrastructure
- Staffing and training
- Production and sales



GRATUITOUS ADVICE #1

- Choose the co-op model if...
 - Your primary objective is to sell outputs
 - You are a “community” person
 - You thrive in the democratic process
 - You want to share the good and the bad
 - You need a simple exit strategy

Steve

AND YOU WILL FIND THAT..

- Sharing risk makes it easier to share rewards
- A good co-op becomes a community
- Many hands make the job easier but not always lighter
- Your business will be about much more than just revenue and profit

GRATUITOUS ADVICE #2

- Choose the corporation model if...
 - You are a fast paced leader and builder
 - Your dream is not shared.
 - You have a strong sense of ownership and independence.
 - You have the resources to get it done.
 - You can handle all the risk and seek all the reward.
 - You can be a slave to your business.

Tom AND YOU WILL FIND THAT...

- A collaborative and ethical corporation need not take second stage to any coop.
- Markets do not choose a coop merely because it is a coop...
 - We all compete on product, service, price.
- The non monetary rewards can outstrip any financial expectations.



THANK YOU

Questions? Comments?
Complaints?

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