

# READY, STEADY, COOP!



**A practical guide on how to support the start-up of new cooperatives**

## TABLE OF CONTENTS

INTRODUCTION .....	3
Benefits for a business mentoring program are: .....	4
COOPSTARTER MENTORS – AN INTRODUCTION .....	5
WHAT DOES A COOPERATIVE MENTOR DO? .....	6
The Mentoring Process in Three Easy Steps .....	6
How to Establish and Maintain the Relationship.....	6
HOW TO USE THE PROVIDED RESOURCES .....	11
Business plan model .....	11
Frequently Asked Questions (FAQ’s) .....	12
Country profiles and Case Studies .....	12
Useful links .....	13
APPENDIX 1 - FINANCE .....	14
APPENDIX 2 – BUILDING A COMMON COOPERATIVE IDENTITY .....	17
Is a cooperative the right model for this business? .....	17
What is a cooperative’s organisational structure? .....	19
The seven cooperative principles.....	22
APPENDIX 3 – CROWDFUNDING IN A NUTSHELL .....	24
Frequently asked questions about crowdfunding.....	25

## INTRODUCTION



For the purpose of this curriculum, mentoring is considered as a developmental learning partnership where a mentor provides guidance to an entrepreneur helping them towards a successful business goal.

Entrepreneurs may be very diverse, ranging from graduates trying to develop an idea to the more experienced looking for practical guidance to start their own businesses.

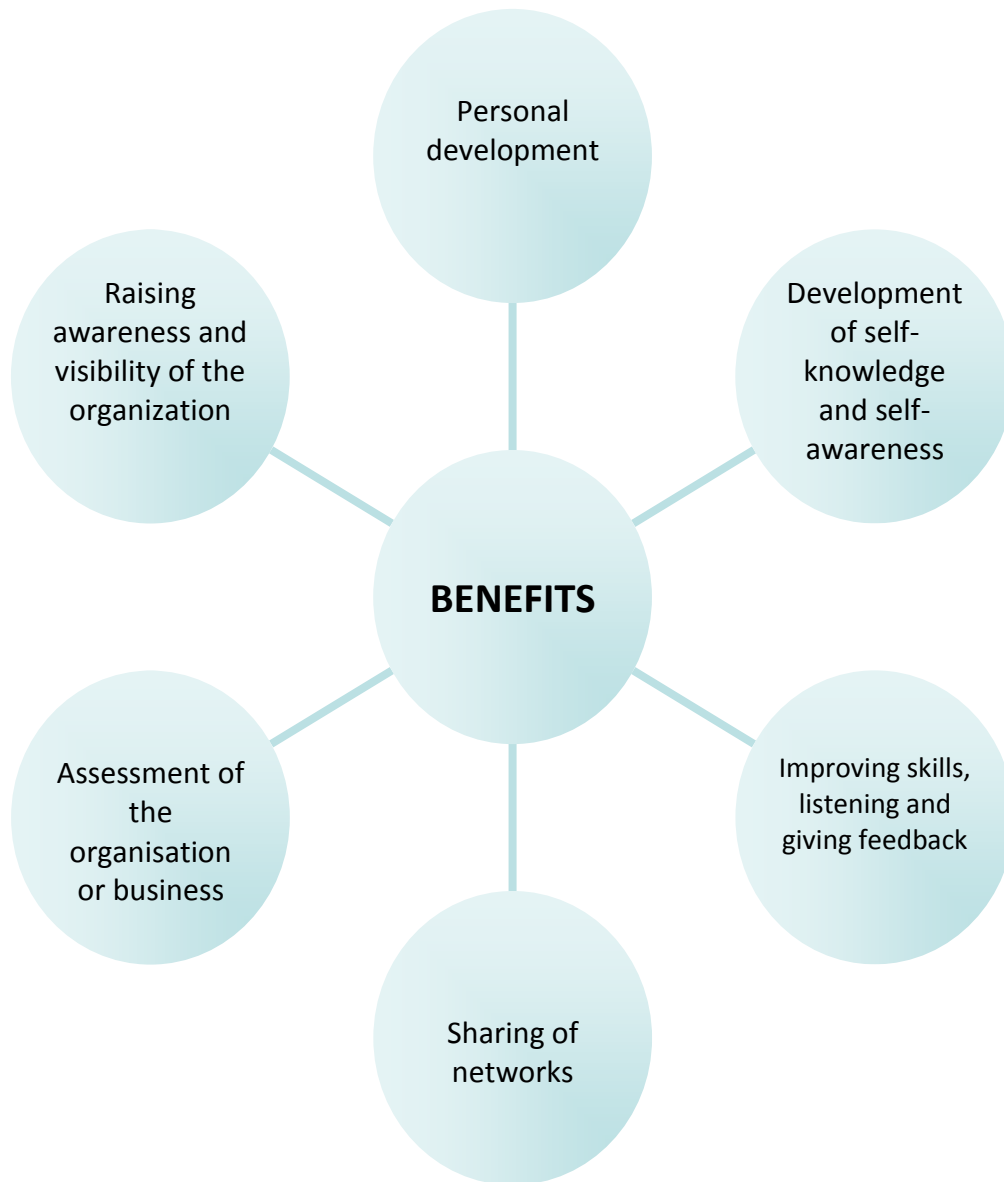
Mentoring is intended to improve the skills of the entrepreneur by enabling them to enhance their own decision-making ability and effectiveness. The mentor provides support for working through crucial and often complex decisions.

An active partnership between the mentor and the entrepreneur is a tool to overcome the fear of starting up a business, specifically the fear of starting up a cooperative – a strange business! This tool should help entrepreneurs getting introduced into the cooperative movement, and facilitate the exchange of ideas and information with others.

The main goal of the curriculum is to help organisations run a successful Cooperative Mentoring Programme that is open to all entrepreneurs who intend to start new businesses in the spirit of the cooperative principles.

The programme is intended to provide knowledge, understanding and practical application of good business practices as well as to provide feedback to co-operative organisations so that they can streamline and update internal processes and communication strategies.

**Benefits for a business mentoring program are:**



## COOPSTARTER MENTORS – AN INTRODUCTION



### COOPSTARTER MENTORS ARE EXPERT PROFESSIONALS WHO:

**Volunteer** Volunteer to assist with the development of a business idea assessing viability and providing information and advice. They should have a strong network of connections within the business community and be able to perceive the business potential of collaboration with non-co-operative businesses.

**Appreciate** Appreciate the cooperative business model and are intent on implementing the model through the mentoring programme. They encourage the sharing of information and have good communication skills.

**Available** Are available to meet the entrepreneur on a regular basis during the mentoring period.

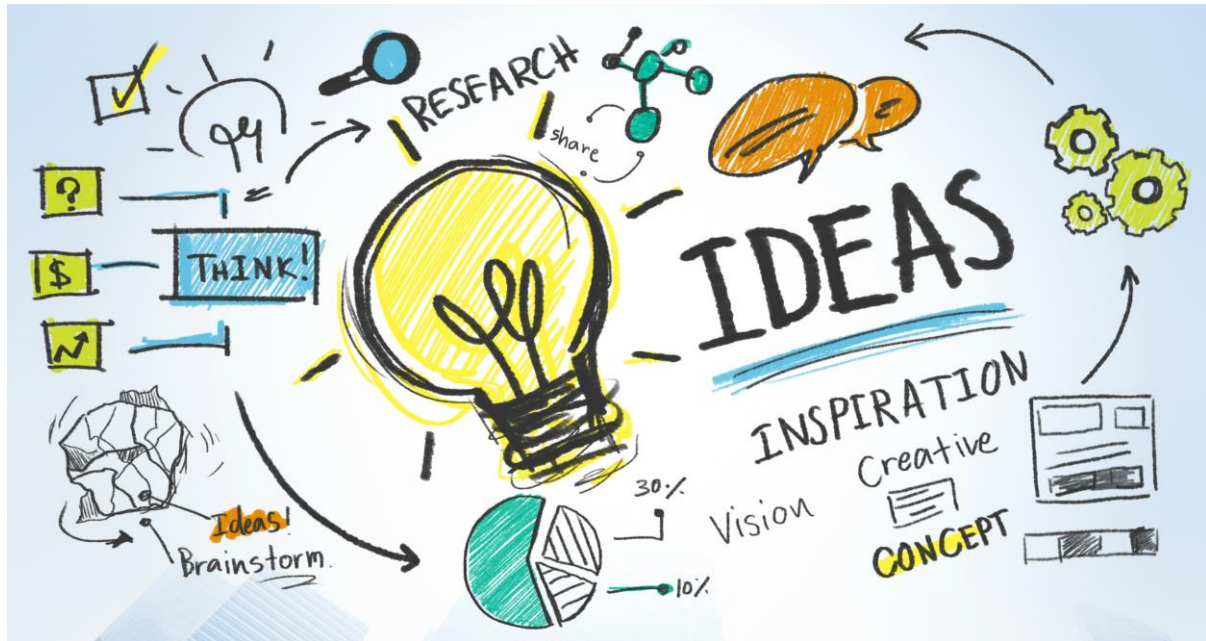
**Informed** Are informed and updated on tools and current opportunities. They are generally interested in the areas of social and technological innovation and may utilise social media in the development of their work.

**Objective** Are objective and professional when giving advice.

**Involved** Are involved in the development process first-hand, sharing all relevant knowledge.

**Supportive** Are supportive and always help to get the job done.

## WHAT DOES A COOPERATIVE MENTOR DO?



### The Mentoring Process in Three Easy Steps

- 1 Evaluate the idea (*evaluation criteria and best practices, including communication*).
- 2 Assign the right mentor (*match the right professional who can best tackle possible issues and build a strong relationship*).
- 3 Leverage the organisation structure (*identify all the internal resources available to obtain the best assistance possible*).

### How to Establish and Maintain the Relationship

#### The first meeting

Entrepreneurs ask for support to start their new business for many different reasons, such as: they don't know how to move forward; they need help to understand bureaucracy; they need to get advice for their business idea; they need to exchange ideas with other, more experienced professionals; they feel more secure starting a new experience if they have experts providing support. It is important they find a facilitating environment. The physical location in which they meet the mentor should be hospitable, warm, easily accessible and provide adequate privacy. The setting includes the material conditions but also the mentor's attitude. It provides the frame to the mentoring process.

**During the first meeting, the mentor should focus on the following objectives:**

**Establishing the relationship**

It should be based on mutual trust, openness, listening and comprehension. The first meeting is important to establish a good relationship between mentor and entrepreneur. This relationship can play a crucial role for a successful enterprise development process.

**Listening to the business idea of entrepreneurs-to-be and exploring it with them**

Entrepreneurs often arrive to the first meeting without a clear understanding of how to progress the business idea. Helping them to develop the idea's progress and give it a structure is a mentor's task. The Mentor listens to the first telling and encourages exploration using their experience in business creation and their interest in the idea.

**Obtain information about the group and its motivation**

What are the individual and group purposes? What are their previous experiences? The work in a cooperative enterprise is based on working as a team, cooperation and sharing. Collecting information and perceptions about individual backgrounds and “cooperative attitude” is strategic. The Mentor helps entrepreneurs reflect on their group and their motivation to start the business project.

**Give the first information about cooperative enterprise and the support process**

Entrepreneurs often attend the first meeting without a good knowledge of the cooperative model. The mentor can explore what they know about cooperatives and why they are choosing this model. Then, help them to collect other information in order to be completely clear about their choice.

Entrepreneurs ask for support but may also need help to define what kind of support they need. The mentor can explain the mentoring process and encourage entrepreneurs to share their difficulties and their objectives.

## Achieving the objectives

Communication and listening are important in creating and maintaining a good relationship. The mentor has to pay attention to their methods of communication. Their goals are:



Facilitating exploration

Understanding and comprehension

Getting and giving useful information

Ensuring entrepreneurs feel supported

Mentors should be supportive by not only using appropriate words, but also with attitudes, facial expressions and gestures and tone and rhythm of speech. The mentor should avoid generalisations, appreciations, prejudices and anticipations. They must be able to recognize and value the positive aspects of the entrepreneurs, their abilities and ideas without raising false expectations.

The mentor should use understandable language and adapt it to the individual entrepreneur. They should be practical and provide concrete examples, but also facilitate new ideas and creativity.

## How to listen

The mentor should practice active listening. This is the ability to listen leading other people to think, to consider new elements, and to clarify their own thoughts. The mentor should be empathic and appreciate not only practical information, but also feelings, motivations, fears and needs. Active listening encourages the entrepreneur to self-explore using dialogue. The mentor practices active listening using reformulation and open-questions. Reformulation is a technique based on repeating what has been said, using different words and summarising content during the meeting. It allows the mentor to confirm that they have understood what the entrepreneur has said. Open-questions help to explore the topic and widen the field of perception, facilitating new reflections and ideas.



### What to ask

The mentor can use a short check-list to help the first exploration of the crucial aspects (the business idea, the group, their knowledge about cooperative enterprises, their abilities and needs, etc.).



**What is your business idea?**

**What is the problem you would solve with your products/services?**

**What are members' experiences and abilities?**

**What do you know about the cooperative enterprise model? What appeals to you about the model?**

**How can we help you to start your business? What do you need?**

### Scheduling and availability

The mentor should draft a schedule for meetings, mixing online and offline communications. Use of written communication, email, messages, documentation, can help with busy schedules and can easily be used as future reference. Live communication, meetings or phone/video calls, are more direct and often more effective, especially in the early stages. Availability of the mentor is another significant aspect of the relationship. The degree of availability, whether or not to give a personal/work mobile number, define time slots for calls, etc., is a mentor's decision which should be communicated at the beginning of the relationship.

### Evaluate available resources and share valuable contacts

Mentoring is essentially about sharing information and making contacts building upon the mentors' leadership and professional networking skills. The mentor should first evaluate the resources of the proposed co-operative, funds, competencies, professional skills, communication abilities, etc., and the placement of the company (market niche, sector or sub-sector, products). Based on the information acquired, the mentor will be able to draft a list of local contacts that will be useful to the entrepreneur. Meeting established companies can be a very valuable experience for young entrepreneurs. It can also provide a chance of networking and active involvement in the association for both new and established cooperatives in the local area.

## **Develop a business plan**

One of the most relevant success factors for start-ups is the entrepreneurs' capacity to:

**1**

**COMPILE RELIABLE FINANCIAL OPERATING PLANS AND CASHFLOW PROJECTIONS**

**2**

**SELECT AND EVALUATE AVAILABLE FINANCIAL SOURCES**

Through the mentor's questions and guidance, the entrepreneurs should be able to acquire this capacity.

The Business Plan Models covered in the next section will be used here.

## HOW TO USE THE PROVIDED RESOURCES



### Business plan model

The business plan (BP) is a tool, used to evaluate the strengths and weaknesses of an entrepreneurial project. Each business plan is like a handbook or guide of the enterprise or of the business idea and it should be constantly modified, updated and verified by each entrepreneur, since it is usually a plan based on statistical or estimated data. This data should be supported by a feasibility study, which is then used to draft the Business Plan

Several different business plan forms are available, there is not a unique model. Generally, two areas are identified within a BP; the first part descriptive and the second with economic and financial data.

Beside the presentation of the business idea and its goals, the descriptive part includes all the information concerning the entrepreneurial view the project is based on, details on the market of reference, the targeted costumers, information on the offered product or service, the strategic and operational plan, the staff involved, the promotion and marketing strategy, and a SWOT analysis.

The economic/financial part covers the areas of investment and balance sheet analysis, including, in particular, information on expenses, profit and loss, a financial plan and cash flow.

The CoopStarter mentors have at their disposal different business plan models to be presented to the future entrepreneur, providing them with the necessary support and consultancy to implement the chosen model. The different BP models can also be used by the mentor as practice exercises within tutoring and training sessions addressed to larger groups of people interested in creating their own businesses.

## Frequently Asked Questions (FAQ's)

The FAQ's are a sort of "memorandum" that briefly provide general information, tips and links on three main themes:

1

Cooperative business model, cooperative identity and values, how to set up a new coop, information and support, contacts

2

Funding cooperative start-ups through crowdfunding, different typologies, and what it is for. How it works and how to use it. Mentoring services.

3

CoopStarter project: what it is and provided services.

The FAQs are intended to provide a useful and practical guide to the mentor in order to have simple and immediate answers on the above aspects. Entrepreneurs can be directed to the FAQs as first guidelines to approach the cooperative system and its opportunities.

Starting from each single question the mentor can extend and deepen information and reasoning of each aspect summarized by the FAQs. The FAQs may also be handed out to the participants as part of the didactic material provided by the mentor.

## Country profiles and Case Studies

Country profiles are homogenous tools providing information on the cooperative system of each country involved in the project. In particular, country profiles include information on the cooperative movement and legal framework, organisations involved in the cooperative system and the services they provide; cooperative support for new businesses at different geographical levels, government support for new businesses, sources of finance and the expertise of each service, as well as any crowd-funding experiences.

At the moment the information available refers to the following countries: Belgium, Denmark, Greece, Ireland, Italy, Sweden; the list of the available country profiles could be widened within the view of extending the partnership involved in CoopStarter project (website/platform).

The information collected within country profiles aims at providing a general framework of each country's cooperative movement, its structure, its services and its main problems/barriers. This way, each mentor has at their disposal an homogeneous comparison that could provide them with new inputs, ideas, good practices and tools to be used both as examples for their entrepreneurs, and also as new inputs to the specific system of the country they are coming from.

Each of the country profiles can be extended and deepened by the mentor within their own country. This profile is useful to let the trainees understand the structural and legal framework within which they aim to set up a new cooperative

The case studies offer practical examples of how businesses in each country have operated within the legislative structure of their own country to form successful co-operatives across a wide spectrum of service provision.

## **Useful links**

[www.start.coop\\*](http://www.start.coop*)

<http://stories.coop/>

<http://www.sommetinter.coop/cms/interview-with-young-leader-rhiannon-colvin>

<https://www.facebook.com/altgen101>

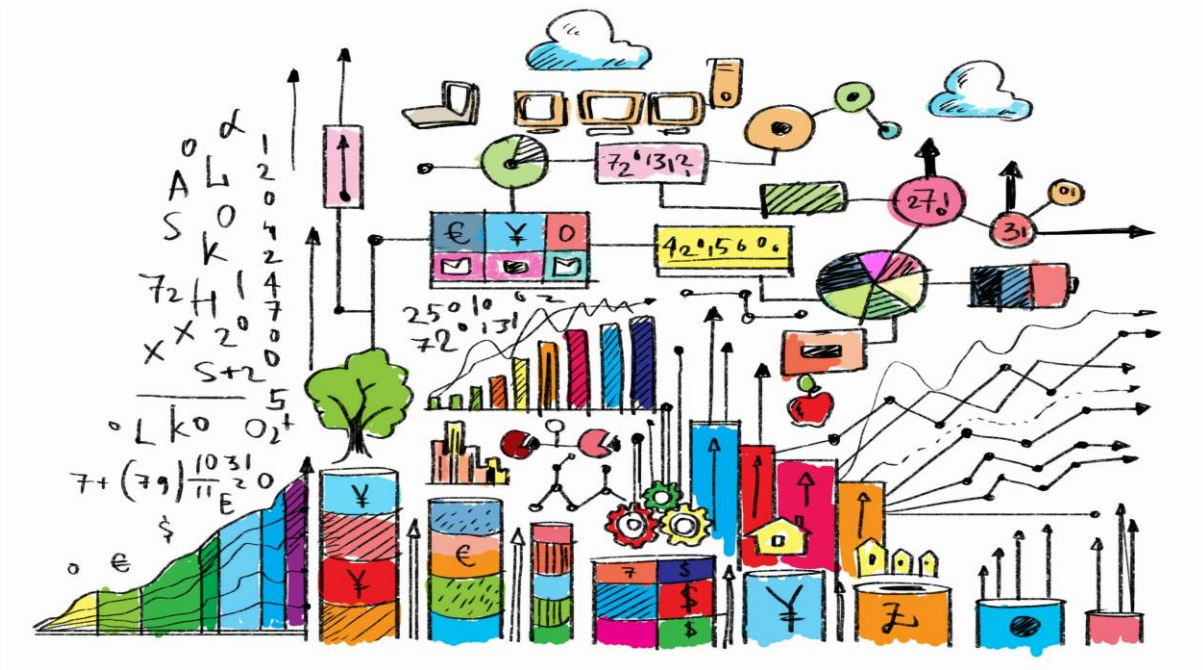
<http://www.im-pactes.eu/fr/la-mallette-pedagogique/>

<http://www.microgenius.org.uk/pg/about-us-1>

<http://www.crowdday.be/telechargements.html>

<http://www.euricse.eu/node/257>

## APPENDIX 1 - FINANCE



One of the most relevant success factors for start ups is the entrepreneurs' capacity to:

- 1 COMPILE RELIABLE FINANCIAL OPERATING PLANS AND CASHFLOW PROJECTIONS
- 2 SELECT AND EVALUATE AVAILABLE FINANCIAL SOURCES

Through the mentor's questions and guidance, the *cooperators-to-be* will be able to acquire this capacity. In order to do this, the starting point is to assess financial needs.

### What does it mean to assess financial needs?

Assessing the financial needs of a business requires knowing the different types of 'finance', which are normally related to the phase in which the business is AND knowing the factors that affect financial needs.

### Types of financial instruments available to a business

Equity (net assets): members' equity, reserves, profits. Main features: higher risk, no limits to remunerations, no amortization. (Phases in which is most needed: seed and start up).

Debt (banks, suppliers, etc.): analyse payments dynamics. Main features: fixed remuneration, amortization plans, not primary risk (Phases in which is most needed:

development and maturity).

Hybrid financial instruments (equity with remuneration, etc.), including CROWDFUNDING<sup>1</sup>

### **CROWDFUNDING**

Defined broadly, crowdfunding is a joint voluntary effort by individuals, groups, enterprises and organisations from both the public and private sector to back a cause, company or organisation. Crowdfunding is a transparent way of funding entrepreneurs from a community using an internet online platform.

Transparency means that people can see that their money goes into well-defined entrepreneurial projects. Most importantly, however, crowdfunding creates opportunities for more people, who otherwise would not have access to traditional channels of finance, to become small-scale entrepreneurs.

### **What is finance for?**

Investments (fixed assets): type of investment and amortization. Types of financial products associated to this need (lease, loan, mortgage, etc.) (Phase in which is most needed: start-up).

Working capital (current assets): how do credits form? How do you finance them? Receipts and cash-in dynamics. Types of financial products associated to this need (overdraft, factoring, etc.) (Phases in which is most needed: development and maturity).

### **Variables affecting financial needs**

Sales

Cashflow

Earnings: explain EBIDT and EBITDA

Then, in order to evaluate the most appropriate financial products, the entrepreneur needs to become familiar with the concept of COLLATERAL.

### **What is it?**

Property or other assets that a borrower offers a lender to secure/guarantee a loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recover its losses.

---

<sup>1</sup> See Appendix 3

A surety or guaranty is another way of guaranteeing a loan: it involves a promise by one party to assume responsibility for the debt obligation of a borrower if that borrower defaults. The person or company providing this promise is also known as a "surety" or as a "guarantor".

**Why is it needed?**

Banks can lend money more easily and at a lower interest rate if the loan is assisted by collateral. Nowadays, some banks ONLY give out loans with collateral.

**How can we get it?**

Property or assets offered to the lender need to be owned by the cooperative in the first place. Guarantees are usually sold, at an interest rate + commission fee, by specific financial institutions dedicated to these products only.



## APPENDIX 2 – BUILDING A COMMON COOPERATIVE IDENTITY



### Is a cooperative the right model for this business?

According to Mondragon's Cooperative Corporation guidance, the first steps necessary to establish business as cooperatives are:

- To be informed what a cooperative is and what is not<sup>2</sup> (differences to other kind of businesses and other kinds of Social Economy businesses).
- To be informed of the international and local cooperative history.<sup>3</sup> To be informed of the international cooperative movement, turnover, cooperative principles, organisational structure, member's obligations and rights and the other cooperative institutions, conflict management techniques.<sup>4</sup>
- To compile a Business Plan and statute that reflect cooperative characteristics.

### What is a cooperative?

Co-operatives are autonomous associations formed and democratically directed by people who come together to meet common economic, social, and cultural needs. Founded on the principle of participatory governance, co-ops are governed by those who use their services,

<sup>2</sup> See the following link: [What a cooperative is and what is not](#)

<sup>3</sup> [Handbook on Cooperatives of ILO, pages 5-9](#)

<sup>4</sup> See the following link: [Sizes, lot of members, turnover, cooperative principles, organizational structure, member's obligations and rights and the other cooperative's institutions, the conflict management techniques.](#)

that is, their members.<sup>5</sup>

*Co-operatives are businesses owned and run by and for their members. Whether the members are the customers, employees or residents they have an equal say in what the business does and a share in the profits. As businesses driven by values not just profit, cooperatives share internationally agreed principles and act together to build a better world through cooperation. Successful cooperatives around the world are allowing people to work together to create sustainable enterprises that generate jobs and prosperity and provide answers to poverty and short term business practices. (ICA)*

---

Nearly 1 billion people are members of cooperatives worldwide. Cooperatives come in all shapes and sizes, and they operate in all parts of the economy: from healthcare to housing, farms to pharmacies, supermarkets to sports clubs, banks to bakeries. A strong network spanning local and global organisations, the cooperative movement is a vital part of civil society that works together to build a better world.

### **What are the main advantages to forming a co-operative rather than a traditional private enterprise?**

The cooperative option is the best legal choice because it is an organisational tool designed to meet the needs, and facilitate the operations, of both small groups and of large groups with tens, hundreds or even thousands of members. The cooperative model offers a proven legal framework for governing collective decision-making and for protecting everyone's interests.

In attempting to meet a special economic, social or cultural need, the co-operative's legal setup may be the best way to become an entrepreneur or resolve problems with others who share the same goals.

**A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.**

According to the definition of cooperative identity which is internationally accepted, cooperatives have a double nature as associations and simultaneously as enterprises.

Speaking of a cooperative internal organisation, cooperatives operate as an association but in their relationship with the outside world they should be a dynamic and competitive business.

---

<sup>5</sup> International Cooperative Alliance, ICA

## **The main differences between cooperative model and others associations of social economy**

### **Administrative model**

Cooperatives are autonomous associations formed and democratically directed by people who come together to meet common economic, social, and cultural needs. Founded on the principle of participatory governance, co-ops are governed by those who use their services, that is, their members.

Based on the principles of empowerment, education, and community, coops operate laterally promoting participation both within their own organisation, and through a focus on community interaction, and support.

Cooperatives follow the administrative model of an organisation where the members decide the cooperative's strategic direction, offering each member a vote (the second principle: democratic member control). Co-operatives often expand the classical structure and democratic representation of the association by introducing further methods of democratic control. Cooperatives also seek to control of external factors of private that might undermine their autonomy.

### **What is a cooperative's organisational structure?**

A co-operative will need at least the following for its day-to-day operation:

- General Assembly
- Board of Directors with committee system
- Set of Officers
- Hired management/ paid employees

### **Financial model**

Cooperatives, as associations, seek to address members' social and cultural needs as well as addressing economic concerns. NGO and social cooperatives can seek to address the wider needs of the whole community, and not only those of members.

Cooperatives seek to raise finance to support their purposes through a business that is owned and controlled by members, rather than seeking donations and funding to deliver programmes of work that are directed and controlled by external bodies.

### **Is a cooperative non-profit?**

Although the primary goal of a cooperative is not to maximize profits but its service to members, a cooperative must, nevertheless, generate sufficient revenue to cover expenses and ensure its growth. After securing, in a general reserve, the capital needed to finance the expansion of the business, any surpluses remaining are returned to members.

Beyond this basic requirement, and in accordance with certain existing legislation on cooperatives, a cooperative may decide not to distribute any surpluses and therefore, in

some situations, will meet the definition of a non-profit organization.

There may, therefore, be two kinds of co-operatives:

- **for-profit cooperatives:** those in which members may redistribute any surpluses of the enterprise among themselves in the form of returns proportional to their business transactions with the co-operative during the fiscal year;
- **not-for-profit cooperatives:** those in which any operating surpluses of the enterprise may not be distributed to the members and must be returned in their entirety to the cooperative's general reserve. (For example, housing, day care, health and other similar cooperatives.)

### **Key differences between the cooperative model and the traditional business model**

Traditional businesses focus the power of ownership in a single individual or sometimes a small group of partners. With the cooperative model every customer is a member and every member a part owner. Cooperative member-owners share equally in control of the organization. They meet regularly to analyse operations reports and elect members from among themselves to a board that may hire administrators to tend to day-to-day operations.

In a traditional business a single person can seize control of a stock-issuing company by buying a majority of shares, thus gaining superior voting power. With a cooperative, no member can buy or control the share of another. Each member has equal voting power and decisions must be made in conjunction with the wishes of the majority. Power truly rests in the hands of lowest common denominator - the member.

Most traditional businesses operate with the primary goal of turning a profit to a single person or a group of shareholders. A cooperative offers benefits to members that go beyond that. By pooling their money, a group of like-minded individuals can form a cooperative that offers higher quality products at lower prices. Furthermore, a cooperative allows individuals to have a direct say in business operations, something often lacking in traditional businesses in general.

### **Management model**

Cooperatives are the only form of business that the stakeholders as consumers of the products or the services are simultaneously in common owners and controllers (member's triple nature of a cooperative). In this way they succeed to ensure products and services with the characteristics that they want, at low cost.

As previously stated, each cooperative member has one vote unlike other forms of business in which, each shareholder's vote depends on the amount of capital that he has invested.

## **Financial model**

In cooperatives, unlike other forms of business, the financial year results of the joined enterprises are distributed to the members depending on the amount of their transactions with the cooperative in terms of products, services or even the work that they have contributed, and not related to the capital that they invested for the creation of that business.

At the same time part of the yearly profits are placed in a common fund to cover member's common needs with an emphasis on matters of continuous cooperative education and cooperation between cooperatives at local, national and international level.

## **Understanding the surplus of a cooperative**

Generally, the distribution of a cooperative's surplus is determined by-laws. Surplus is determined at the close of a coops fiscal year or as prescribed by its by-laws. A cooperative's surplus is not profit in the usual sense of the word. As far as the co-op is concerned, this excess payment or surplus is considered as having been returned to the members if the surplus is distributed in the following manner. First priority goes generally to the reserve fund. The reserve fund is meant to stabilize cooperative operations and may be used only for investments allowed by the code. Second priority goes to education and training. Third priority is, for example, an optional fund, a land and building fund, community development fund and any other necessary funds. After all these have been allocated, the remainder is available to the general membership in the form of interest on their investment and patronage refund. Nevertheless, interest on share capital should exceed the normal rate of return on investment.

## **Does a cooperative perform as well as a traditional private enterprise?**

Some studies comparing the performance of cooperatives with traditional businesses operating in the same economic sector have demonstrated their superiority in two ways:

- low absenteeism
- better quality of products and services

This is the result of the high incentive of workers. They know that the business belongs to them. They know that the better their work, and the greater the surplus the enterprise generates at the end of the year, the more they can increase their income through returns.

The cooperative model is also particularly well suited to new methods of participatory management and is being increasingly adopted by enterprises wishing to maximize their performance and the quality of their client services.

## **Cooperatives and Society**

In each cooperative, according to the first principle of "open and voluntary membership", anybody can be a member sharing the arising benefits without any discrimination. Cooperatives, according to their aims, are seeking to cover members' needs and not to earn unlimited profits by destroying the environment and ignoring the future of the next generation. By their nature, cooperatives belong to the next generation. Cooperatives offer sustainable development of all society as is shown in the reports of International Organization of Employment (ILO) ["Cooperatives and the sustainable development goals"](#)

and the report of ICA-CICOPA [“Cooperatives as Builders of Sustainable development”](#).

### **Business Plan**

It is important that the cooperative values and principles are used to inform the business and strategic planning of the enterprise. This can include thinking about sustainability and development, continuous cooperative education, methods of democratic control and professional training, conflict management, and cooperation between cooperatives.

### **Statute**

Wherever possible, the statute of the organisation should be adopted in line with existing cooperative legislation in that country. Where no specific cooperative legislation is in place, the statute should include elements of cooperative principles as much as possible.

## **INTEGRATION OF COOPERATIVE PRINCIPLES IN STATUTE WHERE POSSIBLE IN ACCORDANCE WITH THE NATIONAL LEGISLATION**

One of the objectives of the international cooperative movement, as noted in the “Blueprint for the Cooperative Decade”, is the harmonisation of national cooperative laws with the cooperative principles by introducing a basic core of the cooperative identity for the recognition of real cooperatives.

The seven cooperative principles are the heart of the cooperative identity. The principles should inform the statute of the organisation as much as possible, taking account of national legislation and the precise nature of the enterprise.

## **The seven cooperative principles**

### **Principles**

#### **1<sup>st</sup> principle**

##### **Voluntary and Open Membership**

**Co-operatives are voluntary organisations, 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.**

#### **2nd principle**

##### **Democratic Member Control**

**Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.**

### **3rd principle**

#### **Member Economic Participation**

**Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.**

### **4th Principle**

#### **Autonomy and Independence**

**Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.**

### **5th Principle**

#### **Education, Training and Information**

**Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.**

### **6th Principle**

#### **Co-operation among Co-operatives**

**Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.**

### **7th Principle**

#### **Concern for Community**

**Co-operatives work for the sustainable development of their communities through policies approved by their members.**

## APPENDIX 3 – CROWDFUNDING IN A NUTSHELL



Crowdfunding is established nowadays as a valuable financial alternative to make business ideas happen. The rise of crowdfunding, especially over the last eight years, must be understood in light of the current economic crisis and the problems associated with the financing of small- and medium-sized enterprises (SMEs).

The lack of funding support for SMEs was, and still is, somewhat ill-starred for Europe's economy. One of its unfortunate consequences being the rise of youth unemployment rates across the continent. The poor economic situation combined with a growing need, especially amongst young people, to find new ways of financing their business projects, is the reason why we are currently witnessing an increase of interest about the financial impact of what crowdfunding can do for the European as well as the non-European economies.

Aware that the European economy is in need of a strong shot in the arm, the European Commission (EC) has made, in the last few years, several high level statements in support of crowdfunding. In addition, the EC launched in 2013 a consultation to explore the added value of a potential EU action on crowdfunding, reaching in 2014 a public statement about crowdfunding which concluded that crowdfunding was crucial to the need to reinforce entrepreneurship across Europe. Furthermore, the Commission through the Entrepreneurship 2020 Action Plan invited Member States to *"assess the need of amending current national financial legislation with the aim of facilitating new, alternative forms of financing for start-ups and SMEs in general, in particular as regards platforms for crowd funding"* (European Commission - MEMO/14/240 27/03/2014).

However, at the present moment the EC has not come up with legislative measures. In the first place the EC plans to further explore the market developments around crowdfunding and get a better overview on how this form of financing fits in the wider financial environment. The actions proposed in the *Communication on Crowdfunding in The European Union* (MEMO /14/240 27/03/2014) aim to address these issues in order to exploit the full potential of crowdfunding in the EU. Amongst the actions proposed by the Commission is the establishment of an expert group – the European Crowdfunding Stakeholder Forum – that will advise the EC on matters regarding crowdfunding and the financial support it provides to start-ups and the development of entrepreneurship in Europe. Furthermore, the Commission intends to hold national workshops to discuss



obstacles to convergence of national regulations on financial return models and, where relevant, issue recommendations to encourage Member States to avoid inconsistencies in national approaches.

Until the Commission, the different national politicians, ministers and public servants reach a conclusion about what crowdfunding can do for the economy, it is important to point out the many possibilities and resources it gives to budding and established start-ups. In the following text we have drawn up some questions about crowdfunding and how it may help you carry out your business dream.

## **Frequently asked questions about crowdfunding**

### **What's crowdfunding and how can you use it?**

Defined broadly, crowdfunding is a joint voluntary effort by individuals, groups, enterprises and organisations from both the public and private sector to back a cause, company or organisation. Crowdfunding is a transparent way of funding entrepreneurs from a community using an Internet online platform. Transparency means that people can see that their money goes into well-defined entrepreneurial projects. Most important however, crowdfunding creates opportunities for more people, who otherwise would not have access to traditional channels of finance, to become small-scale entrepreneurs.

### **How can I get in to business through crowdfunding?**

Crowdfunding can be used by people of all ages just as long as they have a viable business idea. Business ideas can be anything; from the start-up of a kindergarten, a café, a bike shop to the start-up of retail cooperatives selling anything from clothes to food or cooperative research projects, IT companies or even art, film or music projects. The sky is the limit!

The most remarkable aspect, however, is crowdfunding can turn your business idea into a real cooperative enterprise! Crowdfunding offers unique support for growing and existing cooperative entrepreneurs on numerous levels. No other investment form can provide the benefits of market research, word-of-mouth promotion, and crowd wisdom without extra cost.

### **What are the basics of a successful crowdfunding campaign?**

To begin with, you must believe in your own business idea. Because if you don't, the crowd won't either! For a start, learn from other campaigns. Look closely at what other successful as well as unsuccessful campaigns have done. You may find a common thread that will help you understand how to improve your campaign and thereby reduce failure. And do some good, sound research about the business you want to develop.

### **How do I pitch my idea?**

Getting funds from the crowd, just like getting funds from any other source requires a certain set of skills. Make a short and engaging video pitch. If you are camera shy, remember that projects with a video component have 50% more chances to succeed than those without. Short videos help you communicate your idea and show the crowd who's the face behind the project and if you have a prototype, a drawing or whatever boosts your idea, show it!

Spelling out to the crowd that you have a viable and sustainable idea and that you or your group believe in what you are doing is not rude. Show the crowd what their money's for. Some determinants of success and failure might be your ability to deliver a good pitch. And don't be afraid to brag if you believe you have a really good business project! Mum's the word is not suitable for crowdfunding! So don't be afraid of being passionate and bold about your idea.

### **How can I earn the crowd?**

As the name says, crowdfunding is all about the crowd. It may look simple but it isn't. It's not rocket science either.

First of all, identify your audience. Does your brand involve a crowd living in a special geographical area or in a special community? Is your brand age, gender or nationality oriented? What's more, the crowd gives your business project a market test, feedback, proof of concept and extremely valuable access to networks. Besides, crowdfunders are motivated firstly by their emotions and personal interest in a project seeking funds. Their emotional commitment is related to, amongst other things, local needs, private preferences, or brand values that are stuck to the project. Research shows that the odds for campaigns successfully reaching their goals are ten times higher once they have reached about half of their funding goal. This means that it's important for your project to keep engaging and communicating with your crowd at least on a weekly basis. Don't forget to encourage friends and family and other core backers to donate in the first days of your campaign. Learn how to create momentum. This will help convince potential new backers of the increased likelihood of your campaign's success. And remember, the crowd can be brutally honest when voting with their wallets.

### **Budget – How much money do I need?**

Before you think about launching a crowdfunding campaign, make sure you have a realistic budget in place. Be clear before you even launch your campaign, on what you are trying to achieve and how the money you raise will be used. You need to take into account the total costs associated with your crowdfunding project like paying a commission to the platform, shipping costs for rewards, potential tax implications and the cost of making a pitch video. The biggest mistake rookie crowdfunders make isn't asking for too much money, but being unrealistic about how much money they will need to cover their expenses.

### **Spreading the word – How do I use social media to promote my campaign?**

Crowdfunding and social media are thick as thieves, in other words inseparable. Social media and online networks are crucial for your project. As a result, you need to be savvy at setting up a social media campaign. Most of the actual marketing and building a movement around the project happens outside the platform. Hence it is important that you get potential funders interested long before you launch your campaign. Apart from social media channels like Facebook, Twitter and LinkedIn, you can use mail outs, blogs or even snapshots to help you spread the word and communicate your campaign to thousands of followers and readers. Don't be shy of inviting your friends, families and fans to give a boost to your campaign.

Keep in mind! Social media as well as mail outs and blog posts are not just a way to promote

your idea. They also help facilitate the two-way conversation between you and the crowd. So, make updates on progress, add features and make comments and give feedback. Never ever let your followers and fans hanging with unanswered questions. And don't forget to thank your backers for their support and their comments. Let's put it this way. They are the lifeline of your project!

Finally, bear in mind that regardless of the fact of crowdfunding being widely reported in the media as a success story, more than half of all crowdfunding campaigns fail to reach their funding goal. Even if you don't reach your initial monetary target, you shouldn't forget the value of using crowdfunding for market testing a product or idea and as a way of engaging with an audience in a new fashion.

## **PROJECT COOPSTARTER**

Eight partners from across Europe have created the project CoopStarter in order to make the cooperative business model known to the younger generation, and to assist people wishing to set up a cooperative through the start-up phase. With this project, we want to encourage and inspire young entrepreneurs to carry out their business ideas, and provide them with the tools to make them successful.

The partners of the project CoopStarter are: Kooperationen (Denmark), Cooperatives Europe (Belgium), Febecoop (Belgium), NABCO (Ireland), Coompanion (Sweden), Kapa Network (Greece), Legacoop Liguria and Concooperative/Irecoop Emilia-Romagna (Italy).

Reproduction is permitted, provided that appropriate reference is made to the source.

This project was funded by Grundtvig – Lifelong Learning Programme (2013-2015)

