

Co-operative Planning Toolkit



for starting and growing co-operatives

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Introduction

How to use this Toolkit

This Toolkit is designed to be a basic guide to carrying out a feasibility study of a co-operative idea, and then writing a business plan in order to be able to present it to potential supporters. Every co-operative needs a business plan. It also provides a guide to the basic system for managing co-operatives.

The Toolkit is divided into two sections:

Section One is an overview of co-operative societies, their principles and structure. The legal issues involved in setting up a co-operative are discussed and the decisions that need to be made are noted. In Section One we also discuss the issues involved in the operational management of co-operatives, to help members understand their tasks, roles and responsibilities, and to enable co-operatives to plan for effective governance and management.

Section Two provides the information and exercises for developing a co-operative business plan and testing the viability of the business case. You will develop the business plan as you work through the planning process and bring the information you have gathered together. At the end of Section Two are the content headings for the co-operative business plan; this is a guide for groups and individuals to structuring and writing the plan. This is followed by self-assessment tool for checking the quality of the plan.

Co-operative Accounting and Audit is a method for measuring a co-operatives' commercial, social and environmental performance. This is not included in this Toolkit, however for readers who wish to also look at this short publication they are welcome to download a copy free of charge from our website: <http://www.locallivelihoods.com/cmsms/index.php?page=publications>

Section One – Co-operative Organisation

1. Definition of a Co-operative Society

A Co-operative Society is a form of commercial enterprise where ownership, control and the distribution of profits are held and directed by the members of the society. Members can be individuals and / or other co-operatives. Co-operatives must be legally registered with a set of agreed Rules with the Registrar of Co-operatives, or a similar national registration body.

There are a number of terms used to describe co-operatives, such as: marketing co-operative; producer co-operative; savings and loans co-operative; agricultural co-operative; consumer co-operative, community co-operative and worker co-operative. **These are not different types of co-operative; they describe the different types of commercial trading undertaken by co-operatives and different types of ownership.**

The reason for using co-operative organisation is that it creates fairness through democratic ownership and control; strengthens local economies by way of the multiplier effect of profits being distributed and spent locally; and enhances the social and environmental aspects of local communities through the care members take in looking after their own local situation.

Definition:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and environmental needs through a jointly owned and democratically controlled enterprise.

Values:

Co-operatives are based on the values of self-help, self-responsibility, democracy and equity. In the tradition of the founders of the first modern co-operative society, co-operative members support the values of honesty, openness, social responsibility and caring for their community and the environment.

Co-operative Principles:

The co-operative principles are the guidelines by which co-operatives put their values into practice. Co-operatives around the world generally operate according to the same 7 core principles adopted by the International Co-operative Alliance in 1995; however the roots of these principles go back to the first modern co-operative founded in Rochdale, England in 1844. During 2014 (the year this Toolkit is published) the Co-operative Group UK is undertaking a consultation to review the 7 principles, which is due to be completed in 2015. The 7 Co-operative principles are:

1. Voluntary and Open Membership
2. Democratic Member Control

3. Members' Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Co-operation among Co-operatives
7. Concern for Community

In the meantime, in this Toolkit, we have reviewed and made the principles applicable in the 21st century and described them simply below.

A new principle, in relation to the Triple Bottom Line, has been included. By 2015 we anticipate that the Co-operative Group in the UK will have come up with a new set of co-operative principles, so do have a look at their website or get advice from your local co-operative support agency.

Membership

Co-operatives are owned and controlled by registered members. Co-operatives are voluntary organisations, without gender, social, racial, political or religious discrimination. Membership is specified in the registered Rules and mostly relates to trading with the co-operative. Members can be either individuals and/or other registered co-operatives.

Democracy

Co-operatives are democratic organisations controlled by their members — based on one member one vote — who actively participate in setting policies, making strategic decisions and determining profit distribution.

Co-operatives are Independent

Co-operatives trade in any goods or services and are expected to be independent by making a trading profit. Profits can be reinvested in the co-operative and as dividends to members who can also decide to allocate a portion of their profits as donations to social and environmental initiatives.

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 and networks.

Concern for Community

While focusing on members' needs, co-operatives work for the sustainable development of communities through policies and programmes voted on by the members.

Co-operatives work towards the Triple Bottom Line

The Triple Bottom Line means that co-operatives plan, and measure, their performance against financial viability, social wealth creation, and environmental responsibility. Co-operatives are encouraged to seek ways of combining these three operational objectives when selling their products and services. This is considered to be “good business”, members, customers, and investors will be more inclined to do business with co-operatives that work towards the Triple Bottom Line.

2. How Co-operatives are structured

Co-operatives are legally registered bodies under the legislation of the Co-operative Society Act or a similar company Acts. The legislation covers all types of co-operatives.

- Co-operatives are commercial trading organisations; they have limited liability which means that the co-operative, and not the individual members, is liable for any debt.
- Co-operatives differ from private business in who the shareholder is and how profits are distributed.
- Shareholders in co-operatives are individuals or other registered co-operatives; they are trading partners, either as an individual or as another registered co-operative. They are called members, who own and control the co-operative.
- Each member has one share that carries one vote in any decision making.
- Voting is based on one member one vote - regardless of the amount of share value held.
- Members can invest, in their share, up to a set percentage of the value of the co-operative. Interest paid on the share's value is also set by the national legislation of the country.
- Net profits are distributed in the following way: a percentage is allocated to a reserve fund and the rest is allocated to members. The members receive profits divided in proportion to the amount of trade each member has transacted with the co-operative in the year the profit was made.
- There is a definition of a primary co-operative and a secondary co-operative:
 - The members of a primary co-operative are individual traders and customers
 - The members of a secondary co-operative are primary co-operatives
- One sort of co-operative is a Savings and Loan Co-operative. This co-operative trades in money; it receives savings from members and lends funds to members against the amount saved. Eligibility for membership is based on living or working in a defined geographical area - individuals and other co-operatives can be members of a Savings and Loan Co-operative Society.
- When a Co-operative registers itself with the Government's Registrar of Co-operatives it do so using a model set of Rules (By-Laws) to which it adds the details of who can be members; the main commercial, social and environmental objectives; and the commercial activities it will undertake.

Members

The membership of a co-operative is defined in the Co-operative Rules. Members are shareholders; each member can only have one vote regardless of the amount of share value they hold. When preparing to register a co-operative a group will be required to state who the members will be. They can be defined in a wide variety of ways, for example as founder members or people who live in a certain area, as customers, or those supported by the profits of the co-operative. It is important

that a group carefully consider who the members are and how they will participate in supporting the co-operative.

- Members are defined in the Co-operative Rules: they are usually traders and customers who they sell goods to, and buy from, the co-operative.
- Sometime members are defined as community citizens, employees and anyone else the co-operative wishes to be members.
- Membership is voluntary: no one has to be a member.
- Members elect, from the membership, individuals who wish to be management committee members.

The Management Committee

- Any member can be elected onto the Management Committee,
- Election is for a two year period (the length of time may vary, depending of the Rule) after which they have to stand down; but they can stand for re-election for the next period.
- The Management Committee has to meet, at least, every two months and is responsible for the overall management of the co-operative, strategic planning, investment decisions, governance and managing the manager.

The Manager

- The manager is recruited and supervised by the Management Committee and reports to that body for his/her actions.
- The manager manages the day to day operations of the co-operative and is responsible for financial accounting and all work carried out by the employees.
- The manager can be a member of the co-operative.

The Employees

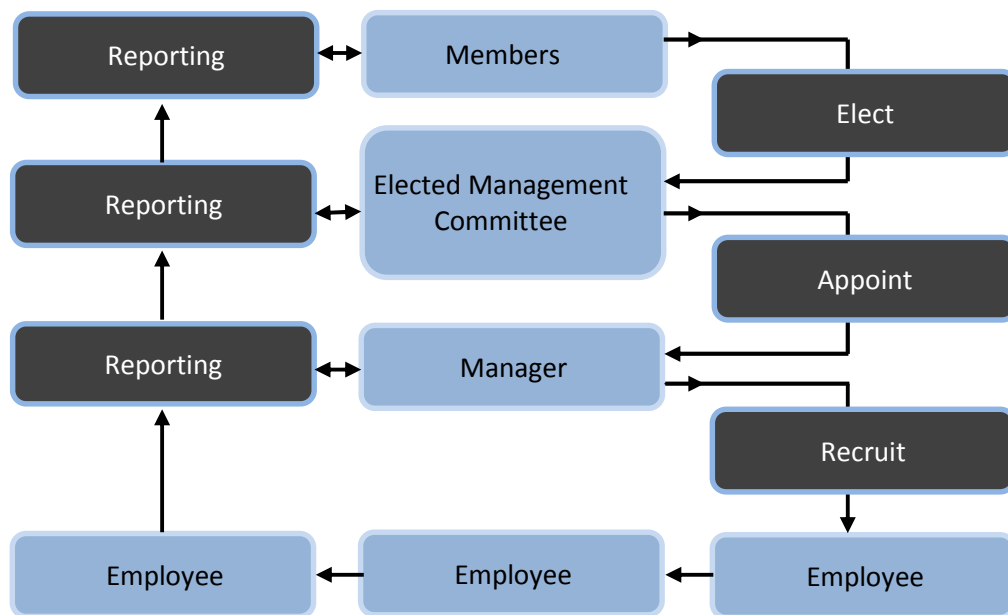
- Employees are recruited by the manager and are supervised by him/her in their work.
- Employees can be members of the co-operative.

The Management Structure

There are variations of management structure, depending on the size of the co-operative, the diagram below, however, represents a generally accepted organisational structure for a small to medium sized co-operative. In many countries enterprise size is defined as:

- Micro - 0 to 5 employees
- Small - 6 to 10 employees
- Medium - 11 to 50 employees
- Large - 51+ employees

General Structure of a Co-operative:



2.1 Financial Structure of Co-operatives

Co-operatives trade to make a profit and out of this profit have to pay for the complete running of the organisation and for future investments. They can borrow money from banks or other institutions and are responsible for repaying the loan and interest. Financial management in co-operatives is the same as in private businesses, they usually prepare a budget for the year ahead, and are required to keep records of all transactions, undertake monthly balances of income and expenditure, and at the end of each year have their accounts audited by an external accountant.

Shareholding

- Members are required to invest an initial amount of money as a shareholding.
- The amount varies and is initially set by the founding members and stated in the Co-operative Rules. Members can, nonetheless, deposit higher amounts if they wish as an investment.
- Interest paid on the share value will be decided by the AGM; it is often between 3% and 6%.

Profit and Dividends

- There is a statutory requirement on co-operatives to deposit a percentage of their annual net profit into a reserve fund (it is often about 25% to 30%) – the percentage can be increased if members decide at an AGM.
- The remaining 75% of net profit can be distributed according to the decision made by members at their AGM.
- It is usual for members to vote themselves dividends with the remaining profit.

- The dividend is distributed based on the amount of trade each member has transacted during that year.
- Members can allocate a percentage of the net profit to social or environmental initiatives. If they decide to do this it is deducted from the amount allocated as dividend payments to members.

3. Legal Issues

In this chapter we consider the legal formation of the co-operative and any laws pertaining to the specific commercial operations of the co-operative.

Company law is based on standard Legislation known as an ‘Act’. In most countries the relevant co-operative legislation is the Co-operative Society Act, the Act specifies that any enterprise registered under this Act is known as a co-operative society. In some countries there will not be a Co-operative Act and an alternative company or foundation set of legal rules will be required.

The Co-operative Society Act

- The Act specifies that every co-operative has to register using an agreed set of Rules.
- The Registrar of Co-operatives ¹ will provide, free of charge, the necessary documents and Rules to establish a co-operative.
- Once registered the co-operative can trade and carry out all things stated in the Rules.
- The registration also states that the co-operative functions as a limited liability enterprise. This means that in the event of the dissolution of the co-operative (closing down) the liability of members, if they are fully paid up members, is limited to the value of the co-operative.
- This includes the money members have invested in buying shares, but does not include any other personal cost to members – they are protected by the registration of the co-operative as a limited liability co-operative from any other personal liability.

Types of Co-operative

There are two main types of co-operatives - primary co-operatives with individual members and secondary co-operatives with primary co-operatives as members. Otherwise co-operatives only differ in relation to their area of commercial trade. There are retail; wholesale; fishery; agricultural; marketing and purchasing; producer; and savings and loan co-operatives. They all use the same legislative Co-operative Act, but differ in their Rules. Their Rules will specify the commercial trade and will describe the type of members and the relationship members have with the co-operative.

3.1 Developing Co-operative Society Rules

When establishing a co-operative it is good practice for the founder members to go through the model Rules as a group. The ‘Model Rules for a Co-operative Society’ is made up of about 70 individual clauses, (a clause is a numbered paragraph describing one rule). In the model Rules most of the clauses are statutory (this means that they are required by the Co-operative Act and can’t be changed), the few clauses that can be changed are indicated with dots on which you write the information.

¹ Offices of the Registrar of Co-operatives, or similar body, will often provide model rules that a group can use and adopt to suit their needs.

These are clauses where decisions need to be made; for example, about how the group want to structure the co-operative. Some of the clauses in the model Rules will need to be written specifically for a particular co-operative. Once you have made your decisions it will be necessary to use a lawyer to write the legal clauses in appropriate language. The Registrar of Co-operatives will help with this. Below is a list of the clauses which need to be designed to suit the specific nature of the co-operative.

The clauses a co-operative should consider are:

- What is the registered name?
- What is the official address?
- What are the main principles that you would like to enshrine within the Rules?
- What are the commercial, social and environmental objectives?
- Will the co-operative operate within a specific geographical area or will it operate anywhere in the world? (Definition of the community served)
- Profit distribution system
- Who is eligible for membership?
- What rights do members have?
- How much is the membership fee to be paid by members?
- Do you want any permanent sub-committees?

Steps to registering a Co-operative Society:

Step 1

- What will be the commercial business of the co-operative?
- What are the main aims and objectives of the co-operative?
- Who will be the initial members?

Step 2

- Decide the co-operative name and registered address
- Decide on the clauses that need to be filled in as part of the Rule (By-Laws)
- Decide who will be the initial subscribers (members)

Step 3

- Agree the legal Co-operative Society Rules
- All founding members must signed the Rules
- Contact the Registrar of Co-operatives and submit the Rules
- At the same time you will need to set-up a Bank account with a requirement that two signatures must sign every cheque and other bank documents.

4. Governance for Co-operatives

Governance is responsibility for making sure the co-operative operate in accordance with their stated commitments.

Governance is the way in which power is exercised, decisions are made, and how expectations are defined in the management of a co-operative. Good Governance is to govern well in the interests of co-operatives' economic, social and environmental objectives, and its members.

As a co-operative it is important to be open and accountable to your members. This means managing the co-operative in accordance with Good Governance principles. Governance is presented in the form of a number of things that the members, committee and the manager should do and should report on.

There are eight general principles of good governance that should be worked to in co-operatives, these are:

1. Participation of Members

- Members having the right to put forward their ideas for the agenda of meetings
- Members having the right to attend and speak at meetings
- Members having the right to vote, based on the one person one vote principle, in the decision making process
- Equal participation by both men and women

2. Working to the Rule of Law

- The Rule of Law in co-operatives is governed by the Co-operative Societies Act and the Rules that co-operatives use to register
- The Rules define how a co-operative should operate and have been agreed to by members who signed up for membership
- The Rules establish the way the co-operative operates, who can be members, how it is managed and how and who can financially benefit from the trading profits

3. Transparency

- Decisions taken and their enforcement are done in a manner that follows rules and regulations
- Information is freely available and any member is entitled to ask for, and receive, any information they think is relevant
- Enough information is provided and it is provided in easily understandable forms and media

4. Responsiveness

- Co-operatives are responsive to their local communities
- Co-operatives are responsive to their social and environmental responsibilities
- Co-operatives are responsive to members concerns

5. Consensus Oriented

- Co-operatives are democratic organisations - which mean majority rules
- Co-operatives are often based within communities where all citizens live and work, and hence need to be able to accommodate many different viewpoints
- Co-operative governance tries to reach broad consensus amongst members on what is in the best interest of the whole community and how this can be achieved

6. Equity and Inclusiveness

- A co-operative's well-being depends on ensuring that all its members feel that they have a stake in it and do not feel excluded
- All groups, but particularly the most vulnerable, have opportunities to improve or maintain their well-being
- Members, regardless of gender, age, ability, or financial and social circumstances, have equal rights in relation to benefits from the co-operative

7. Effectiveness and Efficiency

- Processes and procedures produce results that meet the needs of the co-operative while making the best use of resources at their disposal
- Natural resources are used sustainably and the environment is protected

8. Accountability

- Co-operatives must be accountable to the public and to their institutional members
- A co-operative is accountable to those who will be affected by its decisions or actions
- Accountability cannot be enforced without transparency and the Rule of Law

The Role of Members in Governance is:

- Setting strategy and direction
- Setting policy
- Setting commercial, social and environmental objectives
- Taking overall responsibility for the actions of the co-operative
- Managing the annual plans and monitoring the results from the previous year
- Setting up and overseeing sub committees

Although every member is responsible for applying good governance, it is primarily the responsibility of the elected Management Committee to make sure the co-operative, as a whole, operates and behaves according to the rules and policies agreed upon by members. Depending on the size of the co-operative, the membership may also delegate responsibility for specific areas, both social and commercial, to a subcommittee of the Management Committee. For example, this could be in an area such as; strategic planning, staff recruitment, commercial, social and environmental policies, and the financial accounting and audit.

Governance Statements

In order to support Good Governance a co-operative may establish a Governance Statement. A Governance Statement should list the main objectives in the registered Rules and medium and long term commercial, social and environmental objectives.

The Governance Statement should state the overall guiding principles, policies, values and internal rules by which the co-operative is run and describe how the co-operative will uphold the principles of good governance. It should reflect and interpret the Rules of the co-operative and include other areas such as policy, social and environmental objectives, and any specific decision that has been made with regard to profit distribution.

The Governance Statement provides a guide to good practice for the members of the co-operative, the Committee, the manager and employees when undertaking planning and day to day management. When the Management Committee carries out its duties in accordance to the rules and procedures set by the co-operative and does so in an open and accountable manner the co-operative can be said to be showing Good Governance.

The Governance Statement is an internal working document and can be changed by a simple majority vote in any general membership meeting. It should be reviewed annually along with other annual review and planning processes and updated where and when required.

The Governance Statement should include:

- Purpose and mission of the Co-operative
- Main commercial, social, and environmental objectives
- Important internal rules (those in addition to what is stated in the registered Rules)
- Reference to any Policy statements the Co-operative has adopted

5. Co-operative Management

Management is the process of planning both for the long and short term; making decisions both strategically and operationally; organising the different parts of a co-operative; directing and supporting employees in their work; and feeding back information, and being accountable to, the membership.

The Rules of the registered Co-operative Society determine who can be members, how they are registered, how the members elect a management committee, how that committee functions and what responsibilities it has. The Office of the Registrar of Co-operatives or similar will often provide a checklist of all the areas covered in the Co-operative Rules. For newly registered co-operatives this is a very helpful checklist and one that can be used by members to help them learn about how to manage their co-operative.

Strategic Management Decisions in Co-operatives are made in the following ways:

❖ **Via the Membership**

The membership has overall responsibility for the co-operative and decides on policy, rules, and distribution of profits and investments.

Decisions on policy issues, medium and long term plans, profit distribution and investments are made by the members at Annual General Meetings (AGMs) and Special General Meetings (SGMs). The Committee can make recommendations to the members at general meetings about policy, plans and investments, but cannot make the decisions without the approval of the membership. Members essentially manage a co-operative because they are the owners.

Members essentially manage co-operatives:

- Members are owners
- Members make decisions
- Members decide on policy
- Members have the right to propose change
- Members can decide in what direction the co-operative goes
- Members decide on profit distribution
- Members decide on investments
- Members have the right to be involved in management committees
- Members require to be informed and receive updates on progress

❖ **Via the Elected Management Committee**

The elected Management Committee meets at least every two months and is responsible for the planning and governance of the co-operative and providing support and direction for the manager. The Committee makes operational decisions on how to implement the decisions made by the members and often recruits an operational manager, on behalf of the co-operative, to implement

them. The Committee makes decisions on staff and recruitment, short term plans, and operational and business decisions in consultation with the manager. Committee members are volunteers and are not expected to receive any remuneration for their role from the co-operative. They are, though, reimbursed for expenses.

❖ **Via the Operational Manager**

The employed manager makes day to day decisions related to the operation of the co-operative business. The manager is accountable to the Committee. With the Committee, the manager will make decisions on short term investments, recruitment of employees and can make recommendations to the general meetings on wider issues on policy and planning. All other employees are directed by the manager and report to him or her.

Day to Day Operational Management:

Operational management is the implementation of the strategic management decisions. The duties set by the membership and the management committee are carried out, and employees are directed and supported in their daily work. Day to day management also co-ordinates and arranges the many different components of a co-operative in producing and selling the product or service.

There are a number of forms² that have been developed by the Department of Co-operatives to assist co-operatives establish good procedures and to use as part of operational management.

Membership Forms:

- Application of Membership
- Register of Members
- Notice of General Meeting for Members
- Format for Minutes of General Meeting
- Appointment of Proxy (someone who is authorised to attend and vote on a member's behalf)

Management Committee Forms:

- Consent to become a Committee Member
- Notice of Committee Meetings
- Format for Minutes of Committee Meetings

These are important forms that should be available to all members of the co-operative and all members should have been trained in understanding what they mean. They must be properly used and filed; they represent part of good governance and are a record of how the co-operative has functioned. In the event of a dispute between any parties involved in the co-operative these completed forms become important evidence.

² Copies of these Forms are freely available from The Office of the Registrar of Co-operatives or similar registration body.

5.1 Management Committee Functions

The Management Committee is responsible for the overall running of the co-operative and as such holds the main management function. The management committee is accountable to, and should report to, the membership. The management committee, via committee meetings, carries out the decisions made at the AGM and other general meetings, and is responsible for strategic planning, making major operational decisions, overall financial control, and for managing the manager.

Below are two lists, the first one describes the key functions of the Committee, and the second list describes the general skills required by the Committee as a whole.

These are the main functions of a Management Committee:

- Draft Policy
- Plan Strategy and Operational Activities
- Be the employer
- Maintain good reputation
- Have a representative function
- Set and maintain Good Governance
- Be accountable
- Delegating responsibility to sub-committees
- Resolve Conflict
- Work with and manage the Manager
- Respond to unforeseen situations
- Ensure that any decision has the necessary resources for it to be implemented

Skills of Committee Members:

Representation:	Of membership of the Co-operative including community members, worker members, volunteer members and user or client members. Be accountable to their members
Management Expertise:	Competent Company Secretary Chairperson with chairing skills Awareness of responsibilities as Directors Able to supervise the work of the Manager
Planning Expertise:	Be able to make policy decisions Be able to set and monitor long term strategy Be able to set goals and targets
Personnel expertise:	Be able to set and oversee staffing policy Be able to recruit and support Manager

Co-operative skills:	Understand what is a co-operative Understand the business planning Understand the needs of the community Know how to plan for social and community benefit
Being an employer:	Understand Grievance and Discipline procedure Know how to respond to grievances from employees and members Know how to exercise disciplinary procedures
Commitment:	Have the time to attend meetings and carry out Committee member duties on a voluntary basis Be prepared to partake in relevant training
Promotion:	Able to promote/ champion the aims of the Co-operative at different levels e.g. with investment bodies, community groups and statutory organisations

Committee members should use the opportunity of learning about co-operative management while volunteering in the post. It's valuable for members to learn as much as they can about managing co-operatives. The committee should organise for members to attend workshops and training on how to be a committee member. It will not only help in running the committee, but will help them run their own co-operatives or other type of small business.

5.2 Meetings to Manage the Co-operative

The co-operative meetings are the main way in which co-operatives engage their members in the process of democratic management.

It is the responsibility of the committee and the manager to see that all meetings are properly planned, agendas are developed and sent out to those eligible to attend in plenty of time, and meetings are run in accordance with the procedure, minutes are taken, recorded and distributed. If meetings are well organised and managed they enable the smooth running of the co-operative. All decisions made at meetings must be acted upon and a proper record should be kept and members informed.

There are two main types of meeting that a co-operative will have:

- **General meetings** for all members are Annual General Meetings (AGMs) and Special General Meetings (SGMs).
- **Committee meetings** for the Management Committee and the manager

All meetings must:

- have been notified, in advance, to all those who are entitled to attend;
- be held in an accessible place and at a set time;
- have a written agenda;

- stick to the agenda and have a time limit or finish at a set time;
- have minutes prepared and filed;
- have the decisions made clearly stated in the minutes;
- have the minutes accessible to members;
- have the appropriate quorum in order for decisions to be properly constituted. (A quorum is the minimum number, of those eligible to attend, in attendance. This is stated in the Rules and is often one-third of the total members at general meetings and not less than half of the elected members for committee meetings.)

In addition, there may be weekly staff meetings for the manager and employees which cover day to day operational issues; minutes should also be taken at these meetings as they will be needed to make reports to the management committee.

General Meetings

The co-operative has to hold at least one Annual General Meeting (AGM) a year. Every member is entitled, and should, attend these general meetings where important information is shared and binding decisions are made. Members can ask the Management Committee to convene a Special General Meeting (SGM) if they feel it is necessary at any time of the year.

At the AGM the Committee reports on the financial state of the co-operative, the trading situation, the future business and investment plans. If there are any problems or disputes the Committee is responsible for reporting this information at the AGM.

Management Committee members are elected for a two year period. At the AGM one half of the Committee should stand down each year (but they can stand for re-election). This allows any member to stand for the Committee - it is good practice to involve as many members as possible in the affairs of the co-operative.

Management Committee Meetings

Management Committee meetings are held on a regular basis and sometimes at short notice if there is urgent business to attend to. The Management Committee meeting is the place where all issues relating to the co-operative is discussed, sometimes issues will be taken to an AGM or SGM, and other times will involve the manager. No issues relating to the management of the co-operative should be dealt with outside of the Management Committee meetings.

All Committee meetings must be carried out in a prescribed manner:

- Committee members should be informed of every meeting at least 7 days in advance and should have received a copy of the agenda.
- The meetings should take place at an accessible location and at a reasonable time of day.
- Minutes of all meetings must be kept and all decisions made should be clearly identified with descriptions of the actions needed to implement them and the persons responsible for carrying them out.

- The Committee may, at any time, form sub-committees to undertake specific tasks, these may be permanent or for a limited time.

5.3 The Roles of the Officers of the Co-operative

A co-operative should have a chairperson, a secretary and a treasurer. These positions are decided upon once a year by the elected Management Committee.

- **The chairperson** is responsible for representing the co-operative, managing meetings and responding to crises.
- **The secretary** is responsible for the administration of the Committee, organising the AGM and SGM and keeping minutes.
- **The treasurer** is responsible for proper records of accounts being maintained, making sure the accounts are audited every year and reporting financial matters to the Committee and AGM.

The Manager

The manager is responsible for managing the day to day operations of the co-operative and the supervision of all other employees. The manager attends the Management Committee meetings to report on progress and to receive further supervision. The manager should be involved, with the Committee, in strategic planning and preparing the Co-operative Business Plan. He/she will be responsible for reviewing and updating the business plan every year, and for its implementation.

The manager, along with the Treasurer, will be responsible for financial control and for proper accounts being maintained. The manager will have to always work with a member of the Management Committee in signing cheques.

The manager's tasks are:

- Carrying out strategic plans
- Implementing policy
- Recruiting staff
- Making decisions quickly
- Taking individual responsibility for daily actions and short term plans
- Taking operational responsibility for carrying out the direction set by the Committee and members
- Overseeing administration and making sure it is kept up to date at all times

Employees

Employees should have a signed contract that stipulates their work roles and responsibilities, their working time, their salaries, and the procedure they and the co-operative have to observe in the event of a dispute and/or termination of employment.

6. Administration

It is essential to have a staffed and complete administrative system in place. Administration can be the forgotten element in managing co-operatives. It is a mistake to think the administration will either look after itself or staff will do it when they can; this can undermine the efficiency of the co-operative. It is well worth the investment of a salary or a part time salary: good administration is good value for money; it will save money, reduce stress, maintain order, and, importantly, enable the manager to manage. All too often in small co-operatives the manager spends too much time doing the administration, this means that the co-operative is paying a managers salary for an administrator.

Here are some of the administration functions which need be to be undertaken:

- Office management – filing, answering the phone, preparing invoices, collecting cash payments, etc.
- Stock control
- Employment and salary payments
- Financial book keeping and accounting
- Maintaining and updating systems
- Maintaining contracts and legal issues
- Processing payments and receipts
- Supporting staff: management, sales staff, technical staff
- Maintaining good relations with suppliers, customers, banks, etc.
- Organising events, meetings, etc.
- Maintaining good internal communication
- Knowing what's going on at any time

Administration includes lots of on-going tasks, each of which in itself may not seem that important, but it is an accumulative and supportive process. If administration is carried out regularly it provides a good basis on which the manager can manage the co-operative. If the manager does all the administration it means that he or she is not managing the co-operative. Without good administration too many things get forgotten, which over time not only undermines the running of the co-operative but can actually cause its collapse.

6.1 Management Information Systems

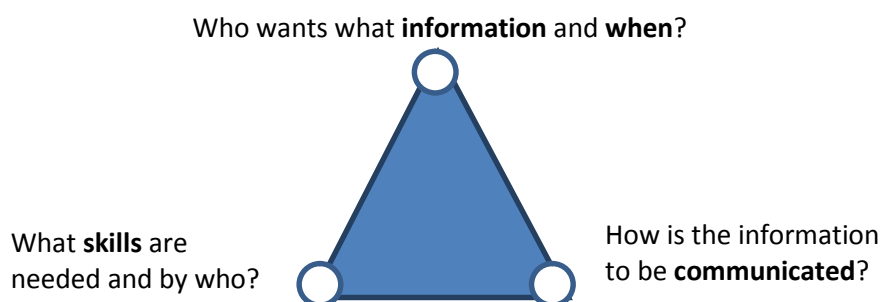
A Management Information System (MIS) is a way of providing all information needed to manage the co-operative effectively, and making sure that the information gets to the right person at the right time.

It is acknowledged that a good MIS will provide the foundation for running an effective co-operative organisation. Co-operatives involve lots of people - members, committees, employees, customers,

suppliers, etc., who all need to know what is going on according to their relationship with the co-operative.

Knowing who needs what information, when, and in what form and being able to deliver that information in a timely manner is part of what makes good management. It is one of the manager's responsibilities to make sure that all those who need to know are informed and this is helped if the co-operative has a good MIS in place.

In order to develop an MIS the co-operative needs think in terms of the connections and communications it needs to make in the following way:



The co-operative will have a number of important communication processes. For each of these make sure all the right people are aware of their responsibilities, have the capacity and time to undertake the work and know how to respond once they receive the information.

A simple exercise which can be undertaken by the co-operative is to:

- Identify who the co-operative has to inform?
- Work out for each partner what information they need
- When does each partner need the information?
- How is the information communicated?

As an example, think of the Agenda for the AGM:

- who should receive the agenda
- who prepares the agenda for the AGM?
- when should the agenda be received by members?
- how will the agenda be communicated?

In answering these questions the co-operative will establish an understanding of lines of communication, both internally and externally. It will be necessary to make sure the co-operative has the skills to use any technology required to manage the communication.

Section Two – Planning for Co-operatives

Introduction

This section provides the practical guidance and exercises for gathering the information for developing a co-operative business plan and testing its viability. The planning process in this Toolkit can be used to test if an idea for a new co-operative is financially viable and socially and environmentally responsible, or to develop an effective business plan for an existing co-operative that might need to strengthen its procedures or raise finance for investment. In both cases it will help test whether the business idea is feasible and commercially viable.

As the Co-operative Business Plan is developed you will have the opportunity to make some strategic plans for the co-operative. Strategic plans are longer term and focus on growth and diversification. Strategic planning is very useful in encouraging members to be imaginative and innovative - it enables members to think-big: what will it be like in 20 years' time, what will the market be, how it will operate and what its needs will be, what will have changed, and what will the future needs and challenges be?

Strategic and annual planning go hand in hand, they work together and if your annual plans support the strategic plans the co-operative will find that the plans start to be achieved. The strategic plans should be over a 5 to 10 year period with each year supported by detail annual plans. See diagram.



Strategic plans may include:

- ideas on new products and services
- researching new markets
- new value added developments
- the acquisition of additional resources such as buildings, land or machinery
- financial investments and raising capital
- training members and employees in new skills

Chapter 12 gives the headings for the Co-operative Business Plan and Chapter 13 a Self-Assessment Checklist so that the quality of your plan can be checked. It is helpful if you have a quick look at them before you start to see how the Co-operative Plan is structured. Start collecting the information needed, and write up sections of the plan in draft as you proceed through the planning process. It is sometimes easier to write the first draft under the appropriate heading using bullet points.

7. Planning for Co-operatives

Planning is the process of working out where in the future you want to be and the steps you need to take to get there.

The planning process is a way of bringing together a potential group of members to develop the co-operative and learn about business and to test ideas to see if they are feasible. If at the end of the planning process you think that the idea for the co-operative is unfeasible (it's not going to work) then either the idea needs changing or the plan should be abandoned. This is not failure; it is good practice and will save you lots of time and money.

Why start a co-operative?

There can be a number of reasons for a group to consider starting a co-operative:

- as a way of providing new business opportunities for unemployed people or communities;
- to develop a produce/product or a service idea;
- a particular customer group has a need or disposable income;
- as a solution to a problem, for example or lack of local facilities;
- as a way of raising finance for individuals to start their own businesses, i.e. a Savings and Loans Co-operative Society; and
- to support social causes or to raise funds for development assistance for an NGO.

Members, or potential members, of a co-operative should be involved in its development and in the important decisions, so the planning process is an ideal way of engaging potential members in open discussion, exploring the options and making democratic decisions. This is a form of action learning which builds confidence, and by being involved in making the initial decisions members are empowered, as owners, to be responsible for their actions and the long term actions of the co-operative.

Sequence for Planning

In this Toolkit we start at the very beginning of planning to set up a co-operative. It is important that you do it in a way that:

- a) provides both strategic (long term) and operational (short term) plans;
- b) creates milestones and targets that can be reviewed and measured; and
- c) will help the co-operative start planning for the next period.

The planning process in this Toolkit provides a logical step by step approach. It is important that all your ideas, plans and research findings are properly kept in files so when you come to formally write the plan all the information you developed and gathered is available in one place - it may help to allocate this task to one person.

If your planning shows that the idea for your co-operative is feasible then at the end of the process you should have the information for a document which can be used to attract investment and other forms of support. It is also important to recognise that as you develop the ideas they may change and the end results may be different than your original thoughts. This is normal, so it is essential to be flexible and creative and open to discovering new ideas as the process of developing the co-operative plan moves forward. Through following the sequence below the Co-operative Business Plan can be prepared.

1. Identify your Stakeholders (customers, suppliers, members, and supporters)

If you know who your stakeholders are you can better understand the context in which you will work, how to engage with them and how to produce a product/service they will want to purchase.

2. Develop and Test the Co-operative Idea

In relation to your identified stakeholders you need to come up with a product/service idea that is commercially viable and socially and environmentally of good quality. You will have to describe how you will produce the product/ operate the service and what equipment you need.

3. Marketing

Marketing is about getting the mix of the product/service and the customer right. It helps you learn about the commercial context in which you plan to operate in and how to design your product/service in such a way that it attracts an increasing customer base.

4. Finance

Once you have collected information on customers, the product/service idea, and determined if it is saleable then you need to look into the finance: how much will it cost and how much can you expect to receive from sales? This section will also look at how to keep good records of all financial transactions.

5. Co-operative Management

Once the financial plan looks achievable then you will need to design the organisation for the co-operative to include: membership; structure; management; and, team working.

6. Governance

These are the things that the members, committee and the manager should do and should report on.

7. Legal Issues

There is a set of 'model rules' that will be used and it will be for the co-operative to add specific content to some clauses such as their aims, who can be members, etc. You will need to identify and/or design the rules that will define the way the co-operative will work.

8. Action 1 - Identify the Co-operative's Stakeholders

A stakeholder is an individual or an organisation that the co-operative will have some form of relationship with, either now or in the future. The co-operative will benefit by having an understanding of who they are and how it can engage with them.

Co-operatives will have a range of stakeholders, people or organisations they have a relationship with. If you clearly understand who your stakeholders are it helps in planning for the development of your co-operative and for how you will engage with partners and customers.

Your stakeholders may be:

- customers
- potential members
- suppliers
- trading partners
- competitors
- financial services
- business services
- importers and exporters
- trade networks
- market research sources

Undertake a simple exercise to identify your stakeholders, profile them and plan how you will engage with them. There are three stages to this exercise:

- 1) Identify all the potential stakeholders – brainstorm ideas and write them down.
- 2) Decide on the stakeholder categories appropriate to your co-operative – the list above will help. Using a Stakeholder Analysis matrix, like below, write the stakeholders under your categories in the example below there are five categories, you may have more or less, and different ones. There may be some overlap, but decide where they most fit, e.g. are they more a customer or are they more a member? Assign all the stakeholders to one of your categories.
- 3) Discuss the positive and/or negative influence of each of the stakeholders on the co-operative and develop a shared understanding of the situation which the co-operative is trading, or is proposing to trade in.

Stakeholder Analysis						
Members	Customers	Suppliers	Competitor	Supporters	Comments	
					Positive	Negative
Etc.						

Undertaking the Stakeholder Analysis exercise helps to illustrate the context in which the co-operative will work. It also offers an opportunity for those involved to discuss and come to a shared view of the situation. If the co-operative undertakes annual reviews then the Stakeholder Analysis can be used to compare how stakeholders have, or have not changed, from one year to the next. The information in the Stakeholder Analysis will be referred to as you develop your co-operative business plan.

9. Action 2 - Develop and Test the Co-operative Idea

The co-operative business idea can come from anywhere, however there are two main drivers for generating business ideas; one is the 'commercially driven idea' and the second is a 'solution to a social or environmental problem idea'. These can often work well together.

For co-operatives in rural areas commercial ideas will typically focus on agricultural diversification of crops, food processing and other raw materials and the introduction of renewable energy, wastes recycling, etc., to create value added commercial trade. Furthermore:

- a surplus of locally grown produce and an opportunity to supply local communities through retail or wholesale markets;
- a need for services such as savings and loans;
- a need for workshops for repairing tools and equipment;
- a need for construction and energy, and if the environment is right, the potential for renewable energy technologies;
- the potential for diversification into new crops;
- the processing of existing crops into finished higher value goods; and

In urban areas the focus may be more of services in sectors such as social care, office support, health care, etc. and manufacturing in sectors such as furniture making, construction, painting and decorating, etc. Furthermore:

- services such as mobile phones and computers
- taxi and bus service provision
- catering for hotels, conferences and weddings and hospitality
- retail and repair

If you have identified a commercially driven idea for a co-operative, or a social or environmental need that can be met have look at the current and potential markets, the local resources, the skills and support available and look at the list of stakeholders identified in Action 1. The main thing to be aware of is that the idea has to be something that someone will buy, it mustn't be based solely on the notion that it is what you like doing, or what has been done in a similar situation in the past. The important consideration is to ask if it is feasible.

- Is there a sufficient customer base to make the idea financially viable?
- Is it the right time to introduce the idea?
- Is the competition already too well-established in the market place?
- Are there sufficient resources and skills to supply the product/service idea?
- Does the business idea have a long term future?

Think about how your idea will develop in the future

Successful co-operatives plan for the longer term; it sometimes takes a few years for a business idea to really work well, so plan and think ahead. Consider the difference between a tried and tested idea and an innovative idea. A tried and tested idea has an advantage in that it works in other places so there is less risk and you already know who customers are and how much they will pay. With an innovative idea the risk is higher but the rewards can also be higher. With both these options, finding the right customers is the path to success.

In thinking about the co-operative commercial idea - think strategically:

- Are you going for Innovation or a tried and tested idea?
- Can the commercial idea grow?
- Is the number of customers for the idea growing?
- Are there additional things that can also be sold to supplement the initial idea?
- Will the product or service last as a sellable item over the next five years?
- Can it develop and will customers continue buying it?
- Do you need to learn some skills and techniques that may take a few years to establish?
- Can you put some milestones and targets in place that help you plan the way forward?

The development of the co-operative commercial plan is about putting all these ideas to the test, if they look good in the business plan you will be able to raise the funds to invest and pay for the time it takes to develop the co-operative's commercial idea.

Exercise: Develop and Map your Ideas:

- Write the commercial ideas for your co-operative on a large sheet of paper.
- Write any associated ideas and potential customers (these will be from the Stakeholder Exercise in Action 1).
- Allow each member of the group to put any idea they like down, try to come up with as many ideas as possible and see how it looks in relation to the potential customers.
- Be prepared to be flexible and open to new ideas; in an exercise like this ideas that you have not yet considered can emerge.
- Identify if some ideas need new skills and if it is possible to develop them.
- If it is possible try and group ideas that work together and discard others.
- Some ideas will look stronger than others. As you go through the co-operative planning process you will explore the ideas in more detail. Some will be seen to be good and gain credence and others will fade and cease to be valuable.

9.1 Test the idea using a SWOT Analysis

A SWOT Analysis is a quick exercise that will help groups identify the Strengths, Weaknesses, Opportunities and Threats (SWOT) in relation to your commercial idea. The Strengths and Weaknesses are internal influences and Opportunities and Threats are external influences.

The SWOT exercise will enable the potential members to build a profile of the co-operative and gain insights into strategic opportunities and the potential for strengthening the co-operative and building capacity. The first part profiles the current situation, the second part enables the group to think and discuss possible strategic moves to improve their situation in order to achieve commercial success.

As a group draw a SWOT diagram on big piece of paper, or flip chart, and undertake the SWOT as a brainstorming exercise.

- To begin ask a question such as: **Can we turn this idea into a commercial success?**
- Write down what people think of the idea in terms of its strengths, weaknesses, opportunities and threats.
- These can be prioritised by numbering them in order of importance.

Profile the Co-operative Idea	
POSITIVE	NEGATIVE
Strengths	Weaknesses
INTERNAL	
Opportunities	Threats
EXTERNAL	

Strategically plan improvements	
POSITIVE	NEGATIVE
Use Strengths	to overcome Weaknesses
to exploit Opportunities	in order to avoid Threats

Example SWOT Profile for: Marketing sun dried cocoa beans	
STRENGTHS: Good management to organise new production Have plenty of sunshine most of the year Good venue Have good supply of cocoa beans	WEAKNESSES: No experience of sun drying cocoa Do not have a sun drying kiln Some skills not available Unclear tasks and roles No co-operative finance for purchasing kiln
OPPORTUNITIES: Higher prices paid for sun dried cocoa beans Know the customer in Singapore Know how to transport goods Finance can be borrowed Training is available Maybe grants for equipment	THREATS: Customers might say quality of dried beans is poor and lower the price Increased competition from other islands Damaged goods in transit Payment problems from customer in Singapore

The SWOT profile will show how individuals see the situation and how, collectively, the group sees the situation; the next stage of the exercise is to think how to overcome the weaknesses and threats by using the strengths and opportunities. Identify potential strategic moves which will enhance the internal strengths and external opportunities and lessen the internal weaknesses and external threats. Use the positive to reduce the negative.

Example: SWOT Strategy for: Marketing sun dried cocoa beans	
STRENGTHS: Have good supply of cocoa beans Have plenty of sunshine most of the year Good management Good venue	WEAKNESSES: No experience of sun drying cocoa Do not have a sun drying kiln No co-operative finance for purchasing kiln Some skills not available Unclear tasks and roles
Strategy Collect evidence of number of hours of sun per year and quality of cocoa beans. Use management to organise training for employees, in drying, quality control and packaging for transport.	Result Plan to obtain loan for purchase of sun kiln. Employees trained and have skills and understand roles and tasks.
OPPORTUNITIES: Higher prices paid for sun dried cocoa beans Know the customer in Singapore Know how to transport goods Finance can be borrowed Training is available Possible grants for equipment	THREATS: Customers might say quality of dried beans is poor and lower the price Payment problems from customer in Singapore Increased competition from other islands Damaged goods in transit
Strategy Develop business plan to show how the co-operative will train skilled employees and can increase revenue. Obtain evidence of higher prices and approach lender for a loan.	Result Employees trained in quality control and packing for transport. Management negotiates pricing and payment systems based on long term contractual agreements to prevent competitors taking trade away.

10. Action 3 - Marketing

Marketing is the whole process of securing resources, converting the resources into goods and services, packaging for easy selling, transporting the goods and services, promoting and selling to customers, collecting payment, and providing aftercare support.

Introduction

The next stage of planning is to undertake the marketing process. The exercises in this part of the Toolkit should be used as a process of matching the commercial idea to its best market opportunities. After this if you think that the customer is not going to buy your product or service, for whatever reason, you should be prepared to change or abandon the present idea and identify an alternative one.

Marketing is an invaluable tool in driving the commercial success of a co-operative, but marketing is usually seen as an advertising and sales activity; something that is done to sell a product or service, this is not the case.

Marketing is the process of:

- identifying and being clear about your customers and what they want;
- positioning your product/service to suit them;
- designing how to promote your product or service to them;
- then selling it to them; and,
- planning on-going customer support.

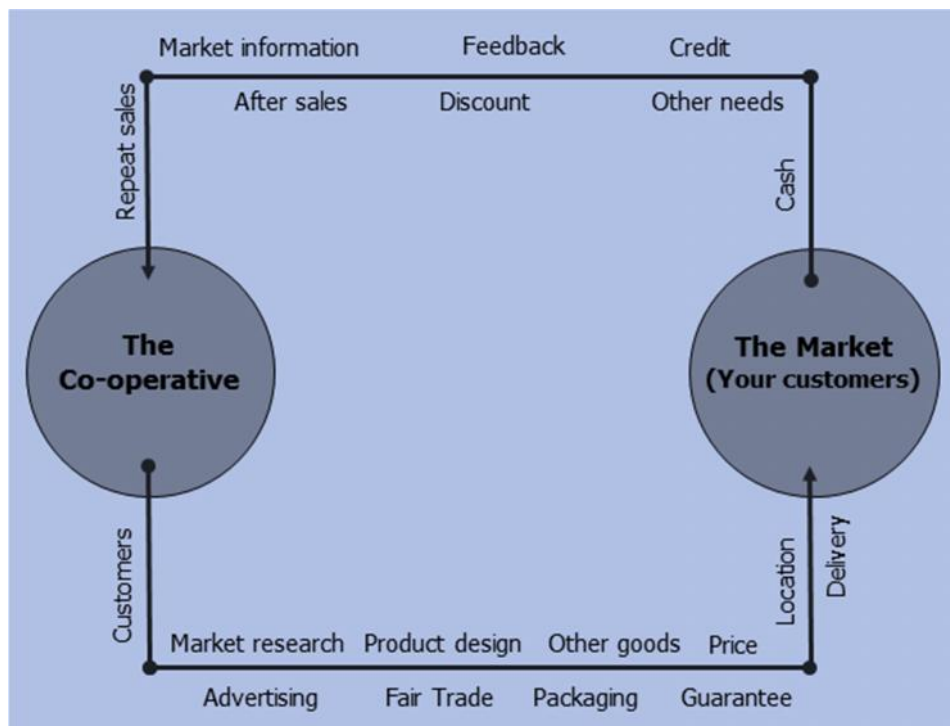
Co-operatives operate in a complex and constantly changing market environment. If the co-operative is to develop and survive, it must produce and offer something of value to some customer group. Through exchange, it gets back what it needs to survive, namely revenue. Therefore the co-operative must make sure that its products and services remain relevant to the market. Alert co-operatives will periodically re-examine their marketing objectives, strategies and tactics and they will rely on market feedback to monitor, and adapt to, changes in the marketplace.

During this stage of the planning process as you identify, research, and develop your thinking about marketing you will also be gathering information on the costs of running the co-operative. You will, for example, gather information on the cost of buildings, the number of employees you need to employ, the cost of raw material, processing and equipment needs, and the cost associated with marketing, transporting and selling. Keep a record of all the costs that you identify as this information will be essential for the next stage of financial planning where you will work out if the co-operative is likely to be financially viable.

The Marketing System

The Marketing System is a cycle: the cycle is dependent on promoting and selling products and services and on getting feedback on how the customer experienced the process.

The Marketing System includes a wide range of things to consider. The diagram below shows how the co-operative has to **push** the product or service to the market and then the co-operative has to **pull** the payment and feedback from the customer. The important point here is to recognise that the co-operative has to do all the work to manage the marketing system.



From the diagram above and in relation to the commercial idea identify the important aspects of the marketing system that the co-operative will need to include in its marketing and in its costs. Draw a marketing system, as above, but only include those components that are relevant to the commercial idea you currently have. This will help build up a marketing plan for the co-operative idea.

The Marketing Process

Once the main components of the marketing system have been identified and drawn the focus for the next step will have been made clear. It will now be necessary to go through the process in more detail by following a four part sequence outlined below:



The Toolkit will now go through each of the above stages in turn.

10.1 Analyse Market Opportunities

Every co-operative must be able to identify its market opportunities. Some co-operatives may think that they are faced with limited ideas, but no co-operative can depend on its initial products and markets lasting forever. Some co-operatives testify that much of their current sales and revenue comes from produce that they did not grow or process a few years ago.

10.1.1 Be clear about your Product or Service

Write a short description of the commercial idea/s you have identified as a way of keeping focus and testing it in relation to the market environment and conditions.

Write some clear statements which describe the co-operative's commercial idea:

- Is it a physical product?
- Is it a service?
- Is it a combination of product and service?
- Is it about bringing things together/networking?
- Is it about creating added value from an existing product/service by processing?
- Is it about a new product/service for a new market?
- Is it innovative?

For example, Solar Drying Cocoa Beans:

The Co-operative, through its members, has access to quality cocoa beans and currently dries these over an open wood fire. The result is that the beans are slightly smoked which lessens the quality and reduces the selling price.

If the co-operative builds a solar powered drying kiln to dry the cocoa beans the quality will be raised and the selling price will be 15% higher.

The co-operative now wants to build a solar powered drying kiln and recruit an employee with solar drying experienced, or put existing employees on a training course and recruit a short term expert to advise and assist the implementation of the solar powered drying kiln.

10.1.2 Be clear about your Market

Undertake market research to develop the ideas from the SWOT. Gather information in order to answer the market research questions as best you can.

The research will give you information that you can base your decision making on. Some questions are provided below to guide your market research, followed by suggestions for where and how you might collect some of the information. The process of identifying and evaluating the market opportunities can often produce many new ideas. Often the co-operative's real task is to choose the best ideas from several good ones. Select commercial ideas that match the co-operative's objectives, and the available resources and skills.

Below is a list of questions co-operatives might consider when drawing up the text for the marketing plan chapter in the co-operative business plan. Some of the questions can be answered from personal experience, and some will need researching.

What is your Market?

- What is the size of the market (in terms of volume and/or value)
- Is the market increasing or decreasing?
- How is the size and trend of the market influenced by various factors; i.e. economic, social, seasonal?
- What is the composition of the market; i.e. age groups, income groups, geographic area?
- What are the main distribution channels, and how do they function?
- Is it an import/export market?
- Will the co-operative deal directly with customers or go through intermediaries?

Who are your Competitors?

- What competitors are there?
- How do their product ranges/services, prices, etc. compare with your idea?
- How are their products/services distributed, advertised or packaged?

- What is the market share of your competitors and what is the (anticipated) market share of the co-operative. Are these changing?
- How does their sales force operate?

Products and Services

- Which products or services do consumers prefer, and why?
- Are your proposed new products or service acceptable to customers?
- Do customers have complaints about existing products or services presently in the market?

Advertising

- What type of advertising suits your co-operative and the proposed customers?
- Will it be word of mouth, adverts in newspapers, brochures, visiting potential customers, trade fairs, online and social media?
- Does existing advertising communication have an effect?
- What are the motivations of the consumer, and is your planned advertising correctly interpreting them?

Sources of Market Research Information:

Primary Data Collection Sources (first hand research)

- Personal interviews in the street
- Focus group discussions with potential customers
- Surveys and questionnaires
- Observation and recording
- Visiting other co-operatives and competitors
- Talking to sympathetic members of similar co-operative businesses
- Thinking of yourself as the customer – what would influence you to buy your product/service?

Secondary Data Collection Sources (existing reference information)

- Online searching – social media
- Local Chamber of Commerce / business support services
- Trade and Professional Associations and their newsletters and websites
- Trade and Professional Publications - as various trades have become more specialised
- Free market and industry data from Government Sources
- Directories held in reference libraries
- Competitors' literature and promotional material
- Records from other co-operatives

10.2 Select Target Markets

The target market(s) are the ones which are initially the easiest to reach, because there is a demand from this market for your product or service.

There are three stages to selecting your target markets, these are:

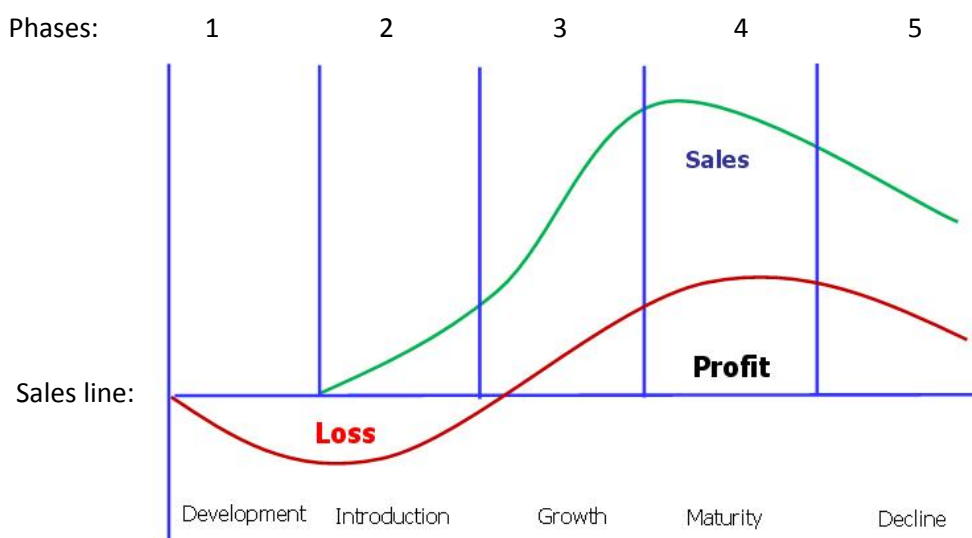
- Forecast demand for your product/service
- Market Segmentation and Targeting
- Market Positioning

10.2.1 Forecast Demand

Anticipate the correct level of demand for your product or service and you will be able to determine the resources that you will need to enter the market, if you will need to attract investment, or need to amend the commercial idea.

Forecasting demand is supported by understanding where a product or service is in terms of its life as saleable goods in the Market Lifecycle. The Market Lifecycle has five phases, it is the process of development, introduction, growth, maturity and decline that products/services go through. Some products/services have short lifecycles, for example some technology products like the fax machine or video, and some have very long lifecycles such as the motor car or refrigerator. Within these lifecycles there will be changes in fashions, taste and styles and which will each have their own mini lifecycles.

The diagram below illustrates the sales and profits of the commercial idea in relation to the market lifecycle. Sales start to take off only after the Development Phase and profits only start to take off after the Introduction phase. Estimate the place in the lifecycle where your product/service idea is currently placed and where it might be placed in, say, 5 to 10 years. This will help to calculate the level of investment and the period of time needed.



Phase 1: The development phase

A new product or idea will be in the development phase. During this phase it is often the case that the co-operative will operate at a loss which is why many new products are sold at a higher cost initially. *For example; because the co-operative has invested in developing the skills and the processing for a new product it is likely to have spent more than it receives during this period.*

Phase 2: The introduction phase

A product/service in the introduction stage may have other competitors who are targeting the same market with similar products and services. *For example; because the development phase of the product has been completed and the market has been tested it will be cheaper for competitors to enter the market at this time.*

Phase 3: The growth phase

A product/service in the growth phase is when the level of sales has increased to the point where you start to make a profit. However, the growth phase is also the time when other competitors can fast track into the market with similar or alternative products/services. *For example; because the customer has become familiar with the product or service they feel confident to continue purchasing it on a regular basis.*

Phase 4: The maturity phase

The maturity phase is when there is little room for growth but that there is a good customer base who continues to purchase the goods. For some products like soap or food it will be a lasting mature phase, for other goods the maturity phase may be shorter. Goods like electrical gadgets will only last until a new gadget has been developed. *For example; coconut oil can be said to be a mature product, customers continue to purchase it, however, if an alternative oil was introduced and seen to be better or cheaper sales of coconut oil may decline.*

Phase 5: The decline phase

This phase is when consolidation takes place between providers of similar products/services; some co-operatives merge, some cease trading, and some change their products. *For example, when alternative products start to be introduced and the current product becomes less attractive.*

From this describe where the proposed product/service currently is and where you think the market will be in the future.

10.2.2 Market Segmentation and Targeting

Market segmentation is the term used to describe how you categorise your customers into groups so you can identify a particular segment(s) as your target market, keeping in mind other segments as potential target markets in the future.

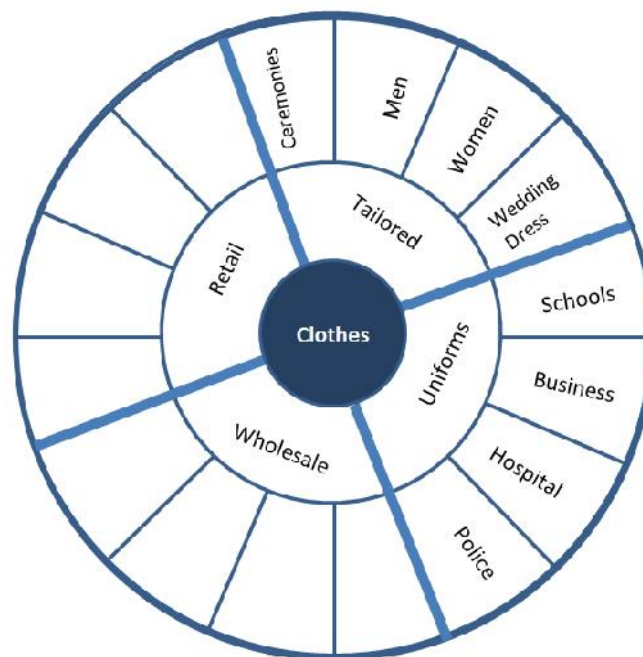
Market segmentation gives you a number of advantages; it can help you to:

- **identify** the customers for your product/service now and in the future;
- **focus** your marketing on the customers who will be most likely to buy your goods;

- **avoid** the markets which will not be profitable for you;
- **build** loyal relationships with customers by developing and offering them the services they want;
- **get ahead** of the competition in specific parts of the market;
- **identify** new services;
- **improve** services to meet customer needs; and
- **increase** profit potential by keeping costs down, and charge a higher price for some of your services.

Exercise: Market Segmentation

The Market Segmentation exercise will enable you to develop a longer term approach to diversifying products and services, which are either connected to your core skills and resources or to your main customer(s). The point of the exercise is to look at the relationship between what is called direct and indirect markets. The direct market is the end user and the indirect market is an intermediary where they will sell on the item to the end user. Draw a set of concentric circles and then divide them up into segments, as in the diagram below. This is a simple example of making clothes.



You can then do this exercise in either, or both, of the two ways below:

1) Put your product/service idea in the centre (as above)

- Identify, and write down your direct customer groups in each of the surrounding segments. For example, if you are selling vegetables you might identify your markets as shops, restaurants, supermarkets, hotels, hospital, schools, etc.
- In the outer circle define each one of these in more detail in terms of location, buying process, type of vegetables they buy, etc., building a better understanding of who the customer is and who the intermediary is.

- You will see how different ideas about customers start to emerge and you will see connections between different segments that indicate potential opportunities for a larger market share.

2) Reverse the process by putting the customer in the centre

- Identify, within your product/service area, all the products/services they might buy.
- You are looking at how to extend the product/service in order to include other products/services.

Using this exercise you should be able to identify a strategic approach to your target market(s) for your product/service, the market segments that you can start with and the additional market segments that you can expand into over a planned period of time. The market segmentation exercise is one of those tools that can be used in different ways; configure the segments as suite the co-operative.

10.2.3 Market Positioning for your Product/Service

By positioning your product/service in the market place you will create the image that you wish to convey to your customers.

Discuss the question ‘how do you want your customers to see the product/service and the co-operative?’

Think of:

- The size of the market
- The attractions of your product/service
- What is important
- How to make an impression

If you have developed a Governance Statement you should refer to it at this point and discuss how your values and objectives will be reflected. Create an image of how you want the product/service, and the co-operative, to be seen which represents your values and objectives as a co-operative and that will be attractive to your target customers. For example, customers might be attracted to buying from local providers, as opposed to buying imported goods, so you might want to position your co-operative, through its advertising and presentations, as a local provider.

Here is an example of market positioning: In the UK the Body Shop (selling natural beauty products) positioned itself extremely well within the cosmetics sector, a mature market, by having none of its products tested on animals, ethically trading by sourcing through Fairtrade suppliers in developing countries, and by having recyclable packaging. This position not only differentiated it very clearly from competitors but also created an image of caring, and social and environmental responsibility – it was a great success.

10.3 Develop the Marketing Mix

The marketing mix is formed by developing four components, known as the four Ps, and ensuring that the components complement and reinforce each other. Each one of the four components must meet the expectations of the target market you have identified.

The four Ps of the Marketing Mix are:

- **Product:** the quality and design, and the process of manufacturing/ service provision
- **Place:** the right location and the right building for your co-operative
- **Promotion:** how you advertise, promote and sell the product/service
- **Price:** getting the price consistent with the other Ps and the customers' expectations

To develop the marketing mix you need to concentrate on each of the four Ps in turn keeping in mind that you have to make the 'place', 'product', 'promotion' and 'price' attractive to the target market and make each of the Ps compatible with each other. The stronger you can make the four Ps work together the more likely the customer is to choose to buy from you.



10.3.1 Product or Service Design

Product

A product is something that is manufactured, processed, packaged, grown or supplied. It can be consumed quickly or it can be kept for some time. A product needs to attract the target market: everything from how it will behave when it is being transported to the colour and shape should be considered. These are some of the questions you need to consider when selling physical products, products may need:

- **Installation** (who by and how is the product to be set up?)
- **Maintenance** (does your co-operative provide maintenance service?)
- **Repair** (if the product needs repairing does your co-operative have the skills or can you recommend other businesses to repair?)
- **Guarantees** – (for example, for the first 6 months)
- **Added or optional features** (do customers want them?)

Service

A service is something that is provided by people doing something, or explaining something. It can be adopted, learnt from or have an effect. How will customers know how good your service is, have you got experience and how are you showing that to customers?

Product and Service

A product and service is when a co-operative supplies a product and also a service which supports it. For example, if a co-operative sells TVs and also provides an installation and repair service.

10.3.2 Place – Premises and Location Design

Consider the type of building(s), website and location you need for your co-operative idea: what size, facilities, and special features, and make sure you have accurate costs.

Think about what you may need and note what these will cost:

- Planning Permission – web contract
- Hygiene and environmental health requirements - disclosure
- Security
- Visibility - do you need passing trade or will customers search you out?
- Number of rooms -
- Staff facilities – toilets, canteen/kitchen
- Delivery access - can deliveries be made easily
- Customer access and purchase pick up - can customers pick up their purchases easily – are downloads easy to access?
- Image and quality – do the premises/website reflect the image you want to portray
- Location – is it suitable for the product or service? If you are a retail outlet then location is very important
- Price - location is all about cost, the better the position the higher the rent or licence
- Expansion potential - think about how you might expand the co-operative over the period of the lease, or the next 5 years. Are the premises and/or website suitable for expansion or will you have to relocate?

You can also consider environmental issues; can you use low or renewable energy options for cooling/heating and powering your electricity, water conservation, or waste recycling, etc., these not only save money, but can also be used as part of your marketing and will attract certain customers.

10.3.3 Promotion and Advertising

Promotion and advertising can position your co-operative in the marketplace by creating an image of your products/services as well as the co-operative values in the minds of potential customers.

How will customers become aware of their need for your goods and how will your customer choose to buy what you are selling?

Promotion

Promotion makes potential customers aware of your product or service and values, and it can build your reputation. Promotion, unlike advertising, can be free. Promotional material such as leaflets and hand outs have a cost, but it can also include giving away free samples and tasters; prize draw competitions, holding an open day so you can show your services; or by having something of interest to the media that they can report on.

Advertising

Advertising is paying to place adverts in various media such as newspapers, search engines, TV, leaflets etc. Advertising gives you absolute control of the content and it can be repeated as many times as you need, but it can be expensive and therefore it is necessary for you to 'know your customer' and research the type of media they use and, importantly, the media they trust.

If you understand how customers choose to buy your goods it will help you promote and advertise to them. However, promotion and advertising can be expensive; if it is poorly thought out it will be a waste of money, so you want any investment you make to have a return. These are the things you need to find out, the more you know about your customers the better placed you will be to make the right promotions to them.

- **How will customers buy your goods/service?**

Will they see it and grab and buy as an impulse purchase (like sweets)

Will it be on a 'shopping list' of items to purchase?

Will they select from a number of shops, and/or research, investigate and compare products or services before buying?

Are they likely to be influenced by the papers they read, television programmes they watch, or what online search engines or websites they use?

- **How do customers make the decision to purchase?**

What influences their decision to buy?

Will it be based on the cheapest price, the style, what's in fashion, quality, ease of purchase, word of mouth, reviews in the media or online, or all round convenience.

- **How do customers make their purchase?**

How will your customers purchase; in person, by phone or online?

Will they be interested in any post purchase service such as a warranty or service agreement as a built in offer, or as additional items to add to their original purchase?

Branding Your Co-operative

Branding is about getting customers to identify with your co-operative as the place to buy certain goods or services and that they can trust or that they know is the cheapest available.

Promoting and advertising your goods/service and the values of your co-operative can be enhanced through the use of brand images. Think how you should represent:

- Your name
- Logo
- Strapline
- Co-operative values
- What Colour palette
- What font style
- Imagery – pictures, illustrations
- Graphic elements – representing, calmness, excitement, innovation, trust etc.
- What the product/service does for them, how they benefit from your product/service

10.3.4 Pricing

A pricing policy is not the exact price for your product/service but the range of pricing you want to use and which will be acceptable to your customers.

The price charged for a product/service is determined by many factors such as cost of goods/ raw materials, the cost of selling, customer expectations, and level of profit, overheads and investments. You will develop a detailed pricing structure later on when you look at finance but at this point try to get some idea about the pricing you wish to use to reflect your costs, your customer expectations and profit and investment needs.

Follow these steps:

1) Select a Pricing Objective

What will fit in the market you are aiming for? For example, if the product/service is aimed primarily at the luxury market, then a high price is implied, or if it is aimed at high volume then a low price is implied. What price range fits your product/service?

2) Determine the Demand

Clarify the phase of the Market Lifecycle the product or service is currently in and estimate any future changes.

3) Estimate Costs

Estimate or calculate the cost of product or unit of service. This is the sum of all the components of each product or service.

4) Analyse Competitors' Prices

Think about how competitors' prices and conditions of sales compare with your own products/services.

5) Select a Pricing Policy

The pricing policy will be somewhere between the costs of the production or service, and a price that is too high to attract customers.

6) Select Final Price

Set the price within the pricing policy, and add in any other factors into the price to reflect any special features of the product or service.

10.4 Manage the Marketing Effort

Marketing should be incorporated into the day to day management of the co-operative. It is not something done in the beginning and then forgotten about: keep your marketing effort updated.

In large co-operatives marketing, will have a designated member of staff, in small co-operatives however it will be one of the tasks of the manager. It is advisable to involve both the committee and the employees in marketing; employees will have insights and valuable information as they will deal directly with customers. Marketing should use feedback from customers about how the product was bought, used, and waste disposed of as part of the planning for improvements. Always consider in marketing that the product or service can and should be improved.

Marketing will be one of the key areas of the Co-operative Business Plan and should be updated on a regular basis, as you analyse the performance of your product/service against customer feedback and financial returns new ideas will form.

11. Action 4 - Financial Planning for the Co-operative

This chapter goes through the fundamentals of basic finance for a co-operative. There are financial terms that you should understand and use from the start: this will help when structuring the financial information for the co-operative business plan and will help you to identify appropriate types of finance for different types of costs. It is likely that you will need to raise finance when starting or expanding a co-operative; using the right terms will help with communicating with Bank managers and personnel from other financial institutions.

Costs and their Risks

The three types of costs are:

- **Fixed Assets** - one off purchases that can be used for, and retain a financial value for, more than one year.
- **Variable Costs** – the costs of directly producing the product/service
- **Fixed Costs** – on-going costs regardless of any sales or other activities

Here are some examples:

Fixed Assets	Variable Costs	Fixed Costs
Equipment	Raw materials	Rent
Vehicle	Fuel	Electricity
Computers	Packaging	Insurance
Office furniture	Part time labour	Salaries & tax
Fixture and fittings	Advertising	Hire purchase
Building		
Land		

These three types of costs need to be understood in terms of how they should be recorded and accounted for and how the co-operative should plan for them and manage them. If the co-operative needs to raise finance, either as a loan or through investment, it helps to identify which type of cost you need the finance for. The potential lender or investor can then determine the level of risk it is expected to bear.

Fixed Assets – Low Risk

The easiest type of finance to obtain is for a fixed asset; the item purchased retains much of its value and can therefore always be sold to repay the finance raised. In the audited accounts the fixed asset retains its original value and is depreciated in value (paid for) every year by an equal amount over a number of years. For example, if you purchase equipment at \$1000,000 and pay for it over 10 years every year that value would be reduced by one tenth of \$1000,000 – by \$100,000. Fixed Asset costs are considered low risk and easier to obtain because if the co-operative defaults (cannot pay back the loan) the lender can always get the equipment back and sell it for the value left.

Variable Costs – Medium Risk

Variable costs only retain part of their purchase value and can sometimes only have a small return on investment so it is harder to raise finance to cover them. However, in the event of something going wrong items like raw material can be sold to repay finance raised. Variable costs can be considered medium risk.

Fixed Costs – High Risk

Fixed costs are those you have to pay regardless of whether or not you sell anything. As they have very little or no resale value these are very difficult to raise finance against as there is no inherent value once the finance has been spent.

11.1 How to Identify Unit Costs

A unit is a way to calculate sales and the cost of sales – a valuable piece of information. You will already have information on many of the costs for running the co-operative, but you may still need to do some more research to make sure your costs are accurate. It is useful to try to develop a unit value against which you can start to calculate the cost of producing the product/service and the number of units you think can be sold in one year. It is unlikely, so early on, that you will have precise figures so you may have to use estimates for some calculations for the co-operative business plan.

What is a Unit?

A unit is your product/service broken down into something you sell:

- A restaurant might describe its sales in terms of a number of units, such as lunch (described as one main course and either a starter or a dessert), or dinner (described as a starter, main course, dessert and a volume of drink).
- A service providing co-operative will use a unit of time, an hour, day or week which will have a cost which can be allocated to it.
- Agricultural co-operatives will use common units of weight, a kilogram, a tonne, etc.
- Sometimes units may consist of both a physical item plus a time element for servicing or delivering the physical item.

Work Out your Unit Cost

A unit cost is how much it costs the co-operative to produce, sell and manage the process of getting the raw material from supplier to the customer as a finished product.

The unit cost will made up of:

- **The Variable costs:** The purchases of raw material, packaging, direct labour and any costs that vary in relation to the volume (the number of units) produced or provided. This can also include delivery if this is part of the direct selling. **Estimate the number of units you will produce in a year and work out the variable costs for producing that number of units.**

- **The Fixed costs:** The costs for such things as salaries, rent, utilities, interest on share holdings and on any loans are included in the unit cost by apportioning a percentage of the cost to each unit produced or supplied in one year. **Add up the total fixed costs for the year.**
- **The Fixed Assets:** You will need to apportion a percentage of the annual depreciation to the cost of each unit. **Estimate the annual depreciation cost of fixed assets.**

You can work out a unit cost in this way:

- Determine the number of units you can produce/supply in a year
divide by
- Variable costs + Fixed costs + depreciation = gives you a total cost for each unit.

BUT in some circumstances the higher the volume the lower the fixed costs per unit as the fixed costs remain the same until you reach a point where the fixed costs have to increase to meet the higher volume of production or service. Once you have worked out the unit cost, or a general estimation, then you can do some other simple calculations.

Work out the Unit Price

When the co-operative sells the unit it adds a profit percentage to the actual cost which is then the sale price of the unit. The unit cost is the cost to the co-operative; the unit price is the cost to the customer.

How much each unit is sold for depends on a number of things:

- the percentage of profit you are planning to charge,
- the competitor's selling price,
- the price customers are willing to pay, and
- any special features that you may be offering, that have a cost.

Decide on a unit selling price which covers all costs and the percentage of profit you plan to make, by calculating:

- Profit for each unit sold x volume sold = total annual profit.

11.2 Breakeven Analysis

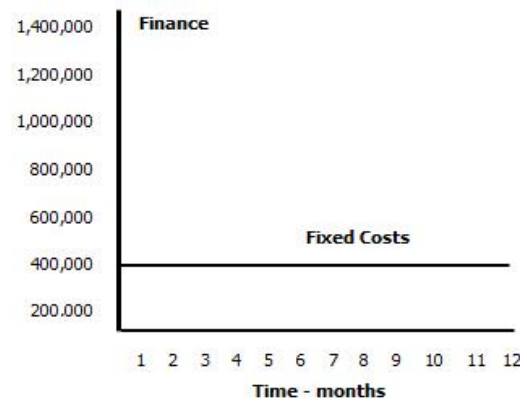
The breakeven point is the point of sales that bring in enough income to pay for the total cost of running the co-operative; when you go beyond the breakeven point you will start to make a profit.

You can now work out what the breakeven point will be using your estimate of the unit cost of producing your product/service, and the number of units you think you can sell in a given period (usually one year), along with the financial information you will have gathered during Action 3 - Marketing. You will have already worked out most of the figures for this exercise. A way to visualise where your breakeven point will be is to draw a Breakeven Analysis graph. It is not unusual for it to take more than a year before you breakeven so you may need to do this for 2 years. The graph has a

vertical axis describing the units of money and a horizontal axis describing the time. This is how you construct a breakeven analysis graph:

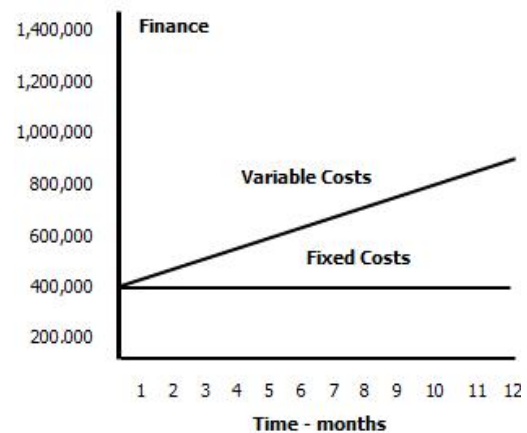
Step 1

Add up all your Fixed Costs for one year. Include everything you can think of. In this example the total for the year is \$400,000. Put the fixed cost line at that amount.



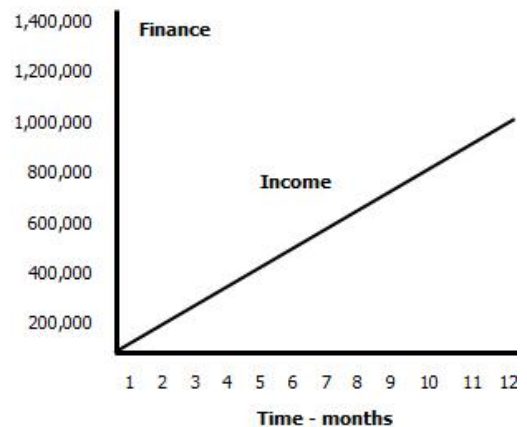
Step 2

Work out your total variable costs for the year. In this example 200 units sold at a variable cost of unit \$2,100 = \$420,000 total variable costs for the year. The variable and fixed costs give you a total cost of producing the goods for sale. The month 12 point should show the total fixed and variable costs for the year, so in this example it is \$820,000 (\$400,000 + \$420,000). Draw the variable cost line diagonally starting from the fixed cost line in month 1 to month 12.



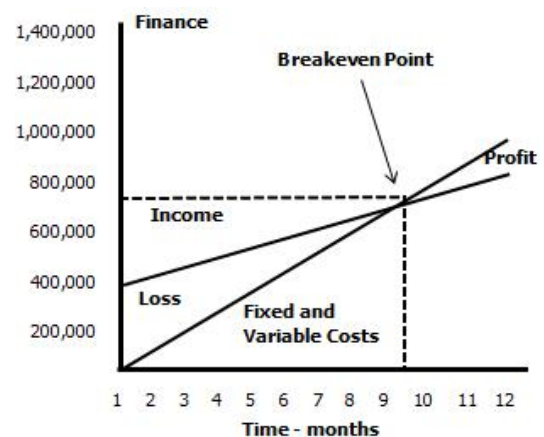
Step 3

Determine the total income for the year based on the selling price of the number of units sold. In this example it is 200 units at the selling price of \$5,000 a unit totalling \$1,000,000. (The selling price must cover the fixed and variable costs and make a profit). Draw diagonally from the month 0 and finance 0 point, to month 12 at the figure of total estimated income on sales for the year.



Step 4

Combine the graphs into one. The point where the income line crosses over the fixed and variable line is the Breakeven Point, before you reach this point you are making a loss and after reaching this point you will go into profit. In this example the Breakeven Point is when sales reach \$780,000 in the middle of month 9.



Keep in mind that you can play around with the breakeven analysis graph. Experiment with different unit costs, different amounts sold and different prices you can sell at. It will take some time to generate the volume of sales necessary to reach the breakeven point; this is why raising finance to cover the short term deficit (loss) is often essential to get a co-operative off the ground.

11.3 The Profit and Loss Statement

A Profit and Loss Statement will extend the information from the breakeven analysis and will give you information about whether or not the co-operative is likely to be profitable.

For the purpose of your co-operative business plan your figures are likely to be estimates based on your research and planned sales. Once you have started trading you will see that your accountant uses a profit and loss statement to describe your transactions when they audit the annual accounts, so here you are starting something that will continue for as long as the co-operative is in operation.

A Profit and Loss Statement is laid out as in the example below with the receipts at the top and expenditure at the bottom and the totals to one side. The Profit and Loss account is part of preparing the Co-operative business plan and should be prepared for a total of three years if possible, most definitely though for one year.

Profit and Loss Statement		
	\$	\$
Receipts		
Sales		1,000,000
Less Opening Stock	40,000	
Purchases	420,000	
	460,000	
Less Closing Stock	60,000	
Cost of goods sold		400,000
Add Sundry receipts		
Rent Received		30,000
Gross Profit		<u>630,000</u>
Expenditure		
Salaries	250,500	
Rent	30,700	
Utilities	7,500	
Advertising	20,800	
Maintenance	10,200	
Insurance	4,000	
Professional fee	3,000	
Bank loan repayment	20,600	
Depreciation	10,500	
Communication	7,000	
Travel	10,750	
Donation	<u>10,000</u>	
Total		385,050
Net Profit / Loss		<u>244,995</u>

In the audited accounts this is done for the previous year and the current year, so you get two columns side by side in order to compare last year's figures with the current year's figures.

The reason that the term Receipts and not Income is used is that co-operatives sometimes receive other forms of money that are not to do with income (sales), such as grants, donations, membership fees and rents from property. Each co-operative will have different receipt and expenditure headings so make sure that you have listed all those that you expect and are relevant to you.

There are two types of profit; Gross Profit and Net Profit. The example below shows a trading net profit of \$244,995 for the year. The gross profit reflects direct profit or loss on the cost of sales (variable costs), while the net profit or loss reflects overall profit or loss including overheads (fixed costs). The reason for displaying the information like this is for analysis purposes and to distinguish the tax liability. In most countries corporation tax is only payable on a percentage of Net Profit.

In the co-operative business plan it is normal practice to construct a Profit and Loss Statement for the first three years of trading. It may take this long to reach breakeven point; and it is not unusual for new co-operative to trade at a loss for the first few years. If the co-operative doesn't indicate a profit by year 3 consider the viability of the business idea and if it is worth continuing.

11.4 Prepare a Cashflow Forecast

A Cashflow Forecast should be used to manage the co-operative finances on a daily/weekly/monthly basis. Many small new co-operatives that have the potential to make a profit in the longer term go bankrupt in the short term because they run out of cash to pay the bills.

A Cashflow Forecast will show the same information as a Profit and Loss Statement but in a different way. A Profit and Loss Statement shows income, expenditure and profit or loss, while a Cashflow Forecast will show the actual state of the co-operative's financial position at any particular time. It is possible to show a profit in the Profit and Loss Statement while showing a minus in the Cashflow Forecast.

The same headings are used in both the Profit and Loss Statement and the Cashflow Forecast; however in the Cashflow Forecast you spread the figures out over 12 months. Each entry should reflect the actual receipt and expenditure of money for the particular month. Although it is called a Cashflow Forecast it really relates to all monies in and out of the co-operative's bank account. The more accurate you are the more control you will have managing your finance and managing the co-operative. It is normal practice to prepare a Cashflow Forecast for three years.

This is an example of a Cashflow Forecast for 1 year

Opening Balance	500	-3,294	-4,706	-4,153	-5,697	-5,239	-3,026	-2,120	-312	4,771	9,755	15,843
Receipts	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Sales	2,000	1,000	1,500	5,000	7,500	8,000	8,500	8,500	11,500	13,000	13,500	14,000
Rent			750			750			750			750
Grant			1,000									
Bank Loan	30,000											
Total Monthly Income	32,000	4,000	6,250	5,000	7,500	8,750	8,500	8,500	12,250	13,000	13,500	14,750
Expenditure												
Salaries	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125
Rent	925			925			925			925		
Utilities	187			187			187			189		
Raw material (variable cost)	840	2,520	2,730	2,940	3,150	3,570	3,990	4,200	4,200	4,410	4,620	4,830
Advertising	1,400				1,400							
Maintenance			300			300			300			300
Insurance		400										
Professional fees											300	
Bank loan repayment	217	217	217	217	217	217	217	217	217	217	217	213
Depreciation												1,500
Communication			175			175			175			175
Travel	100	150	150	150	150	150	150	150	150	150	150	150
Donation												1,000
Capital Expenditure(assets)	30,000											
Total Monthly Expenditure	35,794	5,412	5,697	6,544	7,042	6,537	7,594	6,692	7,167	8,016	7,412	10,293
Monthly Balance	-3,794	-1,412	553	-1,544	458	2,213	906	1,808	5,083	4,984	6,088	4,457
Closing Balance	-3,294	-4,706	-4,153	-5,697	-5,239	-3,026	-2,120	-312	4,771	9,755	15,843	20,300

How the example Cashflow Forecast above is constructed:

1. The same headings as in the Profit and Loss Statement are put in the left hand column in the Cashflow Forecast.
2. Start by filling in the Opening Balance (top left). Put in the exact amount of money you have to start, that includes the money in the bank and cash in hand, in the example it is \$500,000.
3. Use the Expenditure figures from the Profit and Loss Statement. Divide the figure under each heading by 12 (for each month). Place this figure in each month in the Cashflow Forecast. (There may be seasonal or trading variations and if so vary the figure to represent that but make sure the total of the row equals the total figure in the Profit and Loss Statement.)
4. Under Receipts, put in the monthly sale figures and any other receipts such as grants or rent that you receive for sub-letting in the months you receive the money. If you will be owed money in month 12, but will not receive it until the first month of the next year then don't include it, it should be included in month 1 of next year.
5. Under the Expenditure headings spread the payments out in the way you think will be realistic and include interest payments for loans. Make sure you put the actual figure in the actual month it will be paid.
6. Check that you have put in all the figures.
7. Then calculate the totals and balances, if you use an Excel, or other similar, spreadsheet system the calculations will be done automatically, but if you are using a manual system you will have to do it yourself using a calculator.

7.1 You add up the income for the first month and put the total in the Total Monthly Income; do not include the \$500,000 Opening Balance.

- 7.2 Then add all the Expenditure and put the total in the Total Monthly Expenditure row.
- 7.3 Calculate the difference between Income and Expenditure for the month and put the amount in the Monthly Balance row.
- 7.4 Then calculate the Monthly Balance against the Opening Balance and put the amount in the Closing Balance row – pay close attention, it could be a minus or plus figure.
- 7.5 Finally copy the Closing Balance figure (- minus or + plus) for the month to the Opening Balance in the next month.
- 7.6 Repeat the process for all 12 months.
- 7.7 It is important to be very clear about minus and plus signs. You can either use a – or + sign, or you can use brackets () to indicate a minus and open figure to indicate a plus +.
8. The Closing Balance at the twelfth month (year-end) becomes the Opening Balance for the start of the next year.

You will see that the Closing Balance for each month reflects the actual Cashflow for your co-operative: this is the critical information you need in order to manage the finance. It is advisable to 'play around' with the figures to see how to get the best for you. For example if you are carrying a high negative cash flow then see if you can pay your bills later or bring forward payments to you from customers, but if you have to borrow cash to cover the negative cash flow then make sure you secure enough to cover the highest monthly negative balance in the year, in the example above it's in month 4, April where there is a – (\$5,697) amount.

Expenditure payments and receipts from suppliers and customers should reflect when the actual transactions take place, not when an invoice is issued or goods purchased - so if you pay or receive some bills in advance or in arrears it's the actual time of the financial transaction that must be recorded in the Cashflow Forecast. If you manage the Cashflow and enter in the information on a monthly basis and complete the balances you will have control of the finance and be in a position to know in advance how the finances are likely to perform. Knowing in advance the cashflow situation enables co-operatives to better manage their finances.

Remember the Cashflow and the Profit and Loss Statement are different:

- **The Cashflow Forecast** indicates the amount of money that has been or is forecast to be spent and the amount of money that has been received or is to be received at any given point.
- **The Profit and Loss Statement** also includes monies that are owed to the co-operative and monies that are owed by the co-operative to others.
- **The balance** between what is owed and what is owing can be very different from the actual cash that is available at any particular time.

11.5 Sources of Finance

All co-operatives need to have access to finance, either for short periods as a bank overdraft or long periods in the form of a mortgage or long term loan. Whichever type of finance you need it is advisable to plan and secure it in advance of needing to use it. It is bad management to run out of cash or have to go to the bank and ask for cash in a crisis situation. Raising finance will be made much easier if your Co-operative Business Plan is well constructed and written; this is why it should always be kept up to date.

Below are a number of types of finance:

Long Term Finance – 5 to 25 years

- **Share capital** – suitable for co-operatives that have a percentage of their shares held by outside members
- **Personal loans** – from individuals
- **Mortgage** – suitable for buildings and land
- **Bank Loans** – often have to be secured against an asset and can be expensive

Medium Term Finance – 2 to 5 years

- **Member shareholding** - the most suitable way for co-operative to raise medium to long term finance; however, if a member leaves the co-operative has to re-pay the share value
- **Bank loans** – easier to secure if there are existing contracts for work
- **Hire purchase** – suitable for buying a vehicle or machinery
- **Leasing** – another form of finance for vehicles or machinery

Short Term Finance – a week to 2 years

- **Reduce stock levels** – an immediate way of raising small amounts of money
- **Reduce debtor's level** – get customers to pay on delivery, but this can harm commercial relations
- **Increase creditor's level** – negotiate with suppliers for credit
- **Overdraft** – every co-operative should have a bank overdraft facility, so that if you need to borrow short term finance the facility is already set up, but it is important not to use overdrafts for too long because it becomes an expensive way of raising finance.
- **Trading surpluses and savings** – each year the co-operative should save some of its profits in a savings account. This is very useful and will provide the co-operative with a sound financial base. Saving a bit more should also be considered, especially if there are any ideas or plans to expand or replace existing equipment in the future. Every co-operative should save a percentage of their profit to a reserve fund.

11.6 Accounting Records

Every co-operative requires a basic set of accounting records; you should describe the ones you intend to use in the Co-operative Business Plan.

The preparation of final accounts will be done by a professional accountant as part of annual audited accounts; however the day to day book keeping system should meet the requirements of the co-operative to provide a useful operating structure. The financial position of a co-operative should be able to be ascertained without undue difficulty from an inspection of the records at any time. You can use an electronic or paper accounting system; nonetheless it is important to specify it in the plan.

By keeping good financial records management will be kept informed of vital information about how the co-operative is performing and be in a strong position to make sound decisions on financial transactions. Good financial record keeping will also reduce the cost of the audited accounts because of the availability of good information for the accountant to use.

Co-operatives have obligations to outside bodies to keep adequate accounting records:

- **The Registrar of Co-operatives** requires that 'proper books of accounts' be maintained. Proper books are records which detail cash receipts and payments, members' purchases, credit and from whom goods are purchased on credit, the assets and liabilities and the stock in hand.
- **The Custom Rate and Tax authorities** who collect Value Added Tax (VAT) also require periodic returns of your transactions.
- **People that have an interest in the co-operative:** shareholders; members; creditors; lenders; and so on. People who have provided goods on credit or loaned money to the co-operative must be confident that the affairs of the co-operative are properly managed and transactions are properly recorded.

Well-kept records provide vital information for the planning and control of the activities of the co-operative. Financial, and other, problems can be foreseen by regular review of the accounting records and the information can be used to predict changes over the following months.

Banking

If a co-operative has access to a bank then it is advisable to use the bank for as many transactions as possible. Cash received by the co-operative should be recorded in a Cash Receipt Book and deposited into the bank on a very regular basis. If a cheque account is available monies paid to suppliers, salaries, or for any other purpose should be paid using cheques as much as possible.

However, many rural co-operatives don't have access to banks in which case the Receipt and Payment books must be kept on a daily basis and balanced very regularly. It will also mean that co-

operatives will need to keep their cash safely. Using a bank provides security for money and a second record of financial transactions to compare with the co-operative's own record, which is called Bank reconciliation.

The Essential Books³, which can be on a paper system or an electronic system, are:

1. Cash Receipt Book

- The Cash Receipt Book is for recording all monies received by the co-operative in its normal trading.

2. Cash Payment Book

- The Cash Payment book is for recording all monies spent by the co-operative on purchasing supplies, paying for salaries, paying rent, etc.

Note: Co-operatives will use different types of cash books depending on the type of trade they are engaged in, for example; retail and producer co-operatives will want to record cash transactions differently.

3. Individual Member Purchase Book

In addition to the Cash Books a record of members' individual purchases and sales should be recorded in a separate Book. It is necessary to record their business transactions in order to allocate dividends at the end of the year.

4. Debtor Book (buying on credit)

Many co-operatives provide credit to their member customers; all credit provided should be recorded against the member's name with the date the credit was given and the date when repayment falls due.

Note: It is important to have a clear policy on how much credit members are allocated and for how long they can have credit. Once this policy is in place it is important that it is adhered to.

5. Summary Books

There are six Summary Books; these are for recording daily summaries of financial transactions and monthly summaries of financial transactions. The information is already recorded in the other Books, but the totals and balances need to be recorded separately. The reason for having separate summary Books is to be in a position to clearly show the totals at any given time. If you use an electronic book keeping system these summaries will automatically be shown in separate Books. These Books are:

- Daily Receipt Book - Summary
- Daily Purchase Book - Summary

³ Copies of how the Essential Books are structured can be obtained from The Office of the Registrar of Co-operatives in country.

- Monthly Cash Receipt Book – Summary
- Monthly Cash Payment Book – Summary
- Monthly Individual Member Purchase Book – Summary
- Monthly Debtor Book - Summary

6. Share Register

A Share Register Book records the amount of money a member has paid for his or her share and the amount of interest that has been accrued.

There are separate Forms for members' nominations and registrations, nonetheless members pay a membership fee (a share) and receive annual interest on that value this still needs recording in the financial records.

7. Stock Action Record

Keeping an accurate record of stock is essential for co-operatives which engage in retail or wholesale trade. The Stock Action Record should record new stock purchased, stock sold and what stock the co-operative is currently holding. You will then understand what you have and what you need and the value of the stock the co-operative is holding at any time. This is especially necessary at the end of the financial year as these details form part of the audited accounts.

Note: Co-operatives may have special needs for other Books and if so then they are free to set them up.

11.7 Profit Distribution

If the policy of a co-operative is to reserve a percentage of profits in a reserve fund then the remaining percentage of net profit is distributed according to the members' decision made at the AGM after the accounts are audited.

At the end of each financial year after the accounts have been audited, if the co-operative has made a net profit, then it needs to decide what it will do with the money. The decision should be made democratically by the members at the annual general meeting (AGM), however, the committee may recommend how the remaining percentage of net profit should be distributed. This will need then to be agreed by members.

The possibilities are:

- **dividends to members;** the percentage amount being based on the actual value of trade each member has transacted during the year in which the net profit was made;
- **a special fund for additional investment purposes;** the co-operative can pay all or a percentage of the profit into the fund every year; and,
- **as a donation;** for the co-operatives' social and environmental provision.

Where possible a co-operative should establish policy for distributing profits as a general policy to assist making actual decisions at each AGM. This will enable management to better plan for future investments and avoid unnecessary disputes when the time comes.

Members may well want all the remaining profit for dividends, but sometimes it is in their longer term interests to use some of the profit for investment purposes. Otherwise the co-operative will have to borrow finance for investment and the repayment costs will reduce their dividends for years to come. This is an issue that should be discussed at the AGM.

12. Action 5 - The Co-operative Business Plan

The Co-operative Business Plan will become the main document that you use to inform members about what you intend to do, to raise finance from banks, grants and investors and to support you in negotiating with partners. It can also be used as supporting evidence if you decide to bid for commercial contracts.

A first business plan for a new co-operative should have a three year financial plan in place which will show potential members and other investors when you are likely to move into profit. Your business plan should then be updated on an annual basis to reflect the information in your audited accounts and your planned activities for the next 12 months; these might include the expected sales and income, any short term changes, any recruitment of new employees, or the introduction and marketing of a new product.

The annual updating of the business plan is also an opportunity to engage with members, inviting them to submit ideas on improvements and new products and services. Importantly members might well have good ideas about how some of the profits are used in their communities.

Writing your Co-operative Business Plan

During the planning process you will have gathered lots of information and made some decisions about the co-operative, and you may already have written some of the sections for the plan in draft.

In the sections below the headings for each section of the plan are listed and the number of pages you should try to use has been indicated. This is a guide and you may well want to vary the degree of detail, the length of text and the headings and sub-headings. There are two sets of headings, one for small to medium sized co-operatives and the other for micro sized co-operatives.

A Co-operative Business Plan should be written clearly and concisely and where possible use graphs and pictures. Make sure that it is consistent with the registered Rules.

12.1 Small to Medium Size Co-operative Business Plan Headings

Small to Medium Size Co-operative Business Plan

1. Factual information

Name of co-operative.....
Type of co-operative.....Registration Number.....
Date of Co-operative registration.....Number of current Members.....
Location of Co-operative.....Province.....
Number of employees.....Last year's turnover.....
Name of applicant.....Position of applicant.....
Name of Manager (if different from above).....
Address of Co-operative Society.....

Phone number.....Email address.....
Date of co-operative business plan - Start.....Finish.....
Main objectives of the Co-operative.....

Disclaimer:

The applicant and business adviser jointly prepared this business plan but the applicant retains sole responsibility for the accuracy of the financial data quoted.

2. Summary of the Business plan – 1 page

(write this section last, when you have completed the whole plan)

This should summarise the key points as an introduction so that the reader will have a clear idea of the overall plan. This section should also include brief descriptions of the commercial, social and environmental activities it carries out and how the co-operative is managed.

3. Describe the Products/Services undertaken by the Co-operative – 1 page

Current products/services and any planned for the future over the next 3 years

Main processing of the product or service and equipment that will be needed, current and planned over the next 3 years

Main skills of staff and any planned skill development over the next 3 years

4. Market and Competition – 2 to 3 pages

4.1 Describe the market for your products/services:

What is the total market for your products/services is it growing, declining or stable?

Who are your main customers for your products/services?

Key characteristics of the market, good or bad, such as transport, payments, quality issues, communication, etc.

How do you see the market developing in the next 3 years, and what are your plans in response to how you see it developing/

4.2 The Competitors:

Who are you main competitors, now and in the next 3 years?

Do they pose a threat to your business, if so how are you responding?

Do you have something special about your business or can you develop something to compete?

What are your weaknesses and strengths in relation to marketing your products/services?

5. Marketing and sales – 2 pages

What unit of sales do you use? (weight, number of items, time, etc.?)

What is the selling price of that sale unit or percentage mark up? (specify for each main type of product/service)

Describe how you're going to promote and advertise your products/services

Do you have a budget for promotion and advertising, and if so how much is it and will it change over the next 3 years?

Sales forecast over the next 3 years

Type of customer payment system in use, and do you intend to change it over the next 3 years?

6. The Co-operative operations – 2 pages

Describe the process used to make and/or sell your products/services
Have you a good supply of raw materials and/or wholesales
Type of location, size and feature of premises, current and planned in next 3 years
Equipment, machines and vehicles, current and planned in the next 3 years
Type of skills needed, current and planned in next 3 years
Any needs for packaging, storing and delivery, now and in the future?

7. Management – 1 to 2 pages

Provide a diagram of the organisational system of the Co-operative
Describe the elected committee structure and management system
Describe who makes decisions and who signs cheques
Are staff and members trained, if so how and in what subjects, now and in the future
Describe any special employment and training policy

8. Governance – 1 to 2 pages

How is the co-operative governed in the interests of members?
Describe how the co-operative is accountable to members
Describe how the co-operative ensures compliance with its rules?

9. Legal requirements – 1 page

Briefly describe your registered By-Laws and any important rules you have adopted
Explain the main legal definition of your co-operative; is it a primary, secondary or mixed membership co-operative?
Describe any legal obligations the Co-operative has in respect to quality control or hygiene
Do you have any special insurance provision?

11. Finance – 2 pages + annexes

Describe your fixed assets and their value
Describe the method and amount of the memberships' shareholding
Describe dividend policy and payments
Pricing policy and unit calculations
Describe supplier prices, discounts and payment periods
Financial liabilities, loans, leases, mortgages, etc.
Describe the Profit and Loss Statement and the Cash Flow Forecast
Attach the profit and loss for 3 years as an Annex
Attach the cashflow forecast for 3 years as an Annex

Annexes:

Promotional material – if you have any
Profit and Loss Statement and Cashflow Forecast
Sources of finance
If you have technical specification or evidence of market please include this as an Annex

12.2 Micro Size Co-operative Business Plan Headings

Micro Size Co-operative Business Plan

1. Factual information

Name of co-operative.....
Type of co-operative.....Registration Number.....
Date of Co-operative registration.....Number of current Members.....
Location of Co-operative.....Province.....
Number of employees.....Last year's turnover.....
Name of applicant.....Position of applicant.....
Name of Manager (if different from above).....
Address of Co-operative Society.....
Phone number.....Email address.....
Date of co-operative business plan - Start.....Finish.....
Main objectives of the Co-operative.....

Disclaimer:

The applicant and business adviser jointly prepared this business plan but the applicant retains sole responsibility for the accuracy of the financial data quoted.

2. Summary of the Business plan – 1 paragraph

3. Describe the commercial Products/Services of the Co-operative – 2/3 paragraphs

In a few paragraphs describe what the product or service is going to be, how you intend to produce it and what are the main skills and resources you need?

4. Market and Growth – 1 page

Describe who you think your customers will be and how they will increase in the future?

Describe who your main competitors will be and why you think you will be able to compete with them?

5. Marketing and sales – 1 page

What price will you charge for your product or service and how will you charge, i.e. by a unit, weight, time, etc.?

How much do you expect to sell in the first year, and in the second and third years?

How will you advertise or promote your product or service?

Can you describe your strengths and weaknesses in relation to selling to customers?

6. The Co-operative operations – 1 page

Describe the process used to make and/or sell your products/services, the type of building you need and what equipment and skills will be required?

7. Management – 1 page

Provide a diagram of the organisational system of the Co-operative and how the management will work?

8. Governance – 1 to 2 pages

Describe who the members are and their shareholding and dividend structure and what meetings they will be expected to attend and how often?

Describe the elected committee structure

9. Legal requirements – 1 page

Describe any legal obligations the Co-operative has

Prepare the Co-operative Rules

10. Finance – 2 pages + annexes

Membership shareholding

Describe dividend policy and payments

Pricing policy and unit calculations

Attach the profit and loss for 3 years as an Annex

Attach the Cashflow forecast for 3 years as an Annex

Annexes:

Profit and Loss Statement

Cashflow Forecast

Sources of finance

13. Action 6 - Co-operative Business Plan Self-Assessment

Below is a set of questions that groups can use to check if they have prepared the co-operative business plan in the best possible way. This will help you understand the strengths and weakness of your plan, and make improvements, before you show it to outsiders to secure support for the new or expanding co-operative.

Co-operative Business Plan - Self-Assessment					
Scoring					
Self-Assessment Questions	N/A	Fully	Fairly	Hardly	Not at all
1. Summary of the Co-operative Business Plan					
• Is the summary clear?					
• Does the summary cover the whole plan?					
• Does the summary inspire interest?					
2. Description of the Co-operative					
• Can the reader understand what the Co-operative is?					
• Is the reason for using a Co-operative approach rational?					
• Are any social or environmental the objectives well thought out and clear?					
3. Description of the product/service					
• Is the core product/service fully described?					
• Have you described the process of providing the product/service?					
• Are the equipment or machinery needs well described?					
• Are the skills needed described and are they sufficient?					
4. Markets and Competition					
• Is the description of the market comprehensive enough?					
• Are competitors clearly identified and described?					
• Is the product/service sufficiently different from competitors?					
• Is it demonstrated that there is need/demand for the proposed product/service?					
5. Marketing and Sales					
• Is the target market clearly defined?					

• Do the components of the Marketing Mix work together and reinforce each other?					
• Are the selling techniques and processes realistic to achieve the planned volume of sales?					
• Have sufficient resources been allocated to marketing?					
6. The Co-operative operations - products/services detail					
• Is the description of how the products or services will be provided clear?					
• Is there sufficient information on the resources needed and the costs?					
7. Organisation and Management					
• Is the organisational structure clear?					
• Is it clear who makes decisions?					
• Are members defined and are their roles clear?					
8. Governance					
• Has the Co-operative drawn up a Governance Statement?					
• Does the Governance Statement provide guidance to members on how the co-operative is managed?					
9. Finance					
• Have the costings and pricing been clarified?					
• Has the Co-operative developed a profit and loss account?					
• Is there a Cashflow forecast for the first 3 years?					
• Does the financial information in the above show that the Co-operative is viable?					
10. Legal					
• Is membership clearly defined?					
• Have the Rules been drawn up and shared with members?					
• Where necessary have other legal requirements been established?					
11. Annexes					
• Are the annexes in place?					
• Do the annexes support the body of the Co-operative Plan?					
Total Score					