



# Farmer Co-ops & Private Corporations

## Choosing a Business Structure



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

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



Steve

# DISCLAIMER



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

# So How Can We Discuss This?

- Steve –
  - Works for a farmer owned co-op which owns a private corporation.
  - Worked for large multinational companies... public and private.
  - Worked for a small company in a partnership.
- Tom –
  - Grew up on a family dairy farm.
  - Worked in the Canadian Forces, and a Crown Corp.
  - Worked in sales & management for Bell Canada.
  - Presided for 2 years in a multi-ethnic housing coop.
  - Owns and runs Homestead Organics for 11 years.
- We both have the benefit of experience.

# CORPORATIONS



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

# CORPORATIONS

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

# CORPORATIONS

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

# CO-OPERATIVES

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

# CO-OPERATIVES

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



Steve **REALLY BIG QUESTION #1**

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

Steve

# WHY IS IT QUESTION #1?

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

# REALLY BIG QUESTION #2

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

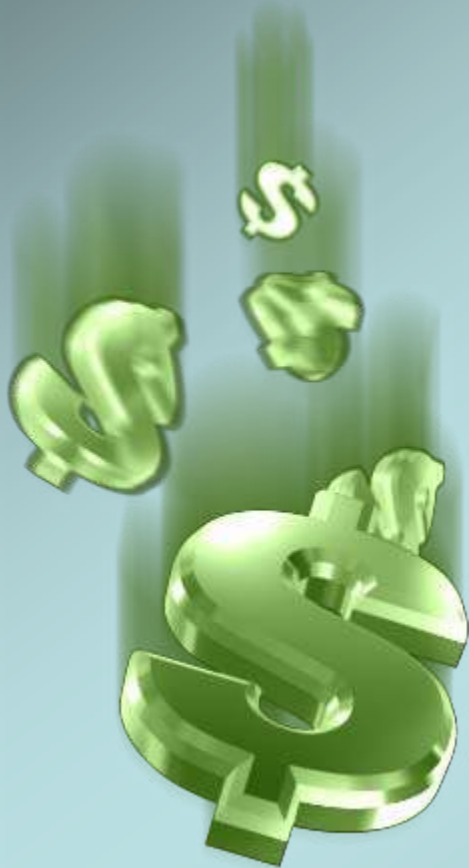
# WHY IS THIS QUESTION # 2?

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

# REALLY BIG QUESTION #3

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

# WHY IS THIS QUESTION # 3?



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

# REALLY BIG QUESTION #4

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

# WHY IS THIS QUESTION # 4?

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



Steve

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

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

*Tom*

# A private business is for me...

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

# Nevertheless...

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

Steve

# TIME TO STOP AND THINK



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

Steve

# BUILD THE FRAMEWORK

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

# GET THE EXPERTS



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

# GET THE INVESTORS

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



# BUILD A TIMELINE

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





Steve

# GRATUITOUS ADVICE #1

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

Steve

# AND YOU WILL FIND THAT..

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

# GRATUITOUS ADVICE #2

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

# **Tom** AND YOU WILL FIND THAT...

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



# THANK YOU

Questions? Comments?  
Complaints?

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