FUTURE ECONOMY LAB
Collective Ownership

Collective Ownership Structures

Summary of Findings

Research Process

For the last several months, One Project, National Cooperative Bank, SecondMuse Capital, and Zebras Unite Coop, with the support of many stakeholders, have been working together on a Future Economy Lab focused on Collective Ownership Organizations. Meaning, companies that are majority-owned by their constituents -- buyers, producers, consumers, workers. Some examples include mutuals, credit unions, cooperatives, and employee stock ownership plan.

> In this lab, we are **trying to better understand** how to unlock greater access to capital and technical support while both reducing barriers and influencing existing systems towards supporting collectively-owned organizations as financially viable businesses to grow and scale.

Our ultimate goal is for all collectively-owned organizations to have sufficient and affordable access to capital regardless of differentiating factors (i.e. size, industry, stage).

We started with a review of over 35 different literature sources including, but not limited to, news articles, opinion pieces, podcasts, reports, and websites. Using an Impact Gap Canvas analysis, we pulled themes from the literature to inform the challenges, the solutions, and the impact gaps across collective ownership structures. To further our research we conducted 24 in-depth interviews (32 participants) with a variety of collective ownership stakeholders, including, but not limited to, capital providers, entrepreneurs, academics, philanthropies, and legal advisors across varying industries and organizational life stages. We supplemented our interviews by sending out a survey to more players in the collective ownership space. The 59 respondents provided further insight and perspectives into our interview findings by allowing us to more comprehensively and accurately understand the data and diversity of the collective ownership ecosystem.

The following is a summary of the landscape of supply and use of capital and its integration with the demand found across the three forms of research conducted during the lab to-date.

Our History

One Project, National Cooperative Bank, SecondMuse Capital, and Zebras Unite Coop are collaborating to convene key stakeholders in the broader movement towards collective and inclusive ownership structures to identify challenges and opportunities for making radical, transformative interventions to support the growth of collectively owned organizations.

Using SecondMuse Capital's proven participatory design approach, the Future Economy Lab (FEL), and leveraging Zebras Unite's network of trust and cooperation in the collective ownership ecosystem, with the support of One Project and National Cooperative Bank we will co-create an investment strategy with an actionable roadmap for mobilizing financial capital and other resources into these interventions.

NEWS **35+**

DIFFERENT LITERATURE SOURCES CONSULTED

24

IN-DEPTH INTERVIEWS WITH

32

PARTICIPANTS

59

RESPONDENTS FROM SURVEYS CONDUCTED

The Findings

Sources of Capital

The most common types of capital are debt, equity, and working capital. Issues arise for founders when in order to obtain debt capital, the business needs active cash flow or collateral. This issue is further exacerbated for collectively-owned organizations with non-asset heavy business models such as platform co-ops. Currently, cooperative loan funds and credit unions are issuing grants up to $50,000 to early-stage cooperatives and six-figure term debt at single-digit APRs when there is cash flow or collateral to make repayment likely. From the philanthropic side, we are seeing them engage by providing capital funds focused on conversions, intermediaries interacting with early-stage cooperatives, and six-figure grantmaking to affiliated 501c3s.

KEY INSIGHT

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Destination of Funds and Uses of Capital

Uses of capital vary by organizational life stage and sector; however, the most common types of capital remain the same regardless of organizational life stage or sector. Traditionally, a company’s capital structure informs the business capital and financial capital. Specifically in the U.S., banks are required, by central banks and regulators, to hold a minimum amount of capital to mitigate their risks. For conversions, capital is used to buyout an existing seller. This buyout is capitalized based on the target company’s financials, but is often still reliant on seller financing. Certain industries, namely housing and grocery, are well-understood by cooperative lenders and the use of funds–buying land, buildings, or inventory–creates collateral. Conversely, services and tech-enabled platform cooperatives primarily need to use funds on personnel for operations and product development, and take longer to realize profitability, which makes them challenging to fund with term debt.

Gaps in connecting Supply and Demand of Capital

Upon layering the literature, interview, and survey findings we see the common theme of a mismatch between capital supply and demand. From the entrepreneur's perspective, there is not enough growth capital. Commonly supplied grants of $10,000 to $25,000 USD are not sufficient when a startup is trying to build their team. Services/ software businesses need to pay for people, which many loan funds do not currently do. Founders have to invest months in unpaid labor without significant upside (ownership of the cooperative or market-rate compensation), limiting who can participate in forming cooperatives and the ability to attract talent who will jumpstart demand.

From the investor's perspective, our analysis shows that there is not enough qualified demand for their specific product, which then gets generalized to "there's plenty of capital and not enough deals". Many impact investors are looking for uncapped, commercial returns. Fixed, low interest rate loans are challenging to issue to early-stage cooperatives without certain future cash flows, physical collateral, or guarantees. Furthermore, there are a limited number of groups doing outbound seller outreach to create a pipeline for conversions, especially in comparison with private equity and strategic buyers.

The challenges also extend to being able to properly assess risks. Institutional investors cannot fully survey the risks for investing in collectively-owned organizations. They are concerned by the risks presented by an elected, rather than a capital-appointed, Board of Directors with member participation, and it requires a laborious, time-intensive process for them to understand the non-conventional business model of collectively-owned organizations. These deter investors from signing a deal when unsure of the cost-benefit return and the structure for a single deal. In other countries where capital and technical assistance is less problematic, systemic infrastructure has been developed to solve for some of these challenges. Specific to Community Development Financial Institutions (CDFIs) and other lending institutions, the stipulations of federal loan funds make it nearly impossible to lend to collectively-owned organizations without a personal guarantor.

KEY INSIGHT

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Besides financing, what is needed?

All resources (literature, interviews and surveys) acknowledged that the capital support is not enough and cannot occur on its own. Our analysis showed that beyond financing, these are other things needed for collectively-owned organizations to thrive:

1. **Legal support** is necessary for structuring governance, such as share distribution across member-classes, and financing round terms
2. **Education** that brings clarity around term sheets, normalizes term sheets in the industry, and clarifies collectively-owned structures
3. **Education, more generally,** on all aspects of operating, financing, and scaling collective ownership organizations of all actors in the market (e.g. robust group decision making processes)
4. **Policy shifts** to unlock public financing and create tax advantages for all collectively-owned organizations or strategic sectors and eliminate unfair disadvantages for collectively-owned organizations. One example is in Italy where laws provide favorable tax treatment in return for allocation of 3% of net earnings to be pooled for cooperative development done by AGCI, Confcooperative, and Legacoop.
5. **Cross-marketing support** leveraging existing customer bases, physical spaces, and value chain integration
6. **Technical assistance** based on a network of providers offering deep sector or functional expertise paid by entrepreneurs
7. **Ecosystem infrastructure coordination** a network of networks of collectively-owned and governed organizations that coordinates, builds, and manages infrastructure for the entire sector including technical assistance resources, policy, investment funds, etc.

Workshop

We hosted a workshop that brought together over 45 stakeholders from across the ecosystem to think together about what we can do as a collective. There has been no shortage of incredible initiatives and innovations to spur the growth of collectively-owned organizations. We recognize that the challenges faced by collectively-owned organizations are not all the same, are complex, interrelated and require living solutions. Our hope for the workshop was to, together, assess where there is energy for change and begin to identify some catalytic solutions that will benefit more than a select few.

During the workshop, we discussed a variety of potential interventions both to address the "dying on the vine" issue which leads to lack of deal flow at later stages and options to address the broader, sector level innovation needs. As part of our discussions to support policy change, one concrete, immediate action was identified: provide suggested edits to the Community Reinvestment Act, during the comment period, to make the Act friendly towards collectively-owned businesses, unlocking billions in capital. Several workshop participants rose up and volunteered to take this on to ensure that comments are made prior to the August deadline.

As we enter the Lab's design phase, we will explore the ideas that had the greatest momentum coming out of the workshop, specifically:

- A system collaboration that builds, creates and sustains infrastructure and ecosystem support
- A product, instrument, or entity that mobilizes debt capital through a syndicated model
- A focus on mobilizing seller interest in and financing conversions
- A process to mobilize and deploy patient equity

While these three ideas rose to the top in workshop discernment, there were a number of additional creative ideas provided by participants. Some will be pursued at the institutional level, perhaps extensions of existing competencies. Others might be thought of as adjuncts to the ideas above. And some could emerge as priorities in the months/years ahead.

Over the next few months, we will host design workshops that will refine each of the ideas with the greatest momentum and figure out the right ecosystem stakeholders to permanently house what is designed through the Lab. We are grateful for the input of the investors, operators, and ecosystem players who contributed to the workshop.

If you are interested in supporting the design or learning more about any of these ideas please reach out to future.economy.lab@secondmuse.com.

Click the icons below to learn more about the organizations.