How to finance your platform co-op start-up

Introduction

A platform co-op is a co-op business that operates through a digital platform. A co-op is a business or organisation owned and controlled by its members and built on a set of co-op principles and values.

Platform co-ops are a relatively new phenomenon, with pioneering entrepreneurs setting up platform co-ops in a wide range of sectors across the globe.

The journey of a platform co-op founder is not easy and given how young the movement is, there is no well trodden path to success; rather this is a time of experimentation from which we are all learning.

This guide is an attempt to summarise these first findings. We expect the landscape to change in the coming years, both from the point of view of sources of finance and of the amounts being raised.

About this guide

This guide is aimed at platform co-op founders taking their first steps to set up their businesses.

You can read through this guidance here or click the download button at the top of this page to download a pdf copy.

It is formed of three parts:

- Part 1 provides the context in which platform co-ops are emerging and the challenges they face.
- Part 2 is a general introduction to co-op finance for platform co-ops.
- Part 3 goes step-by-step through the journey of a platform co-op start-up and identifies the most appropriate forms of funding for each phase (set-up, pre-seed and seed).

Guidance provided here has been generated from observing the journey of existing platform co-ops, learning from the routes taken by standard start-ups and adapting funding models used by traditional co-ops. Every business and sector will be different so you should seek professional financial advice before embarking on any of the suggested ways of raising finance.

Alongside this guide, Co-operatives UK provides:

- Advice and training on specific topics.
- Business support programmes tailored to the needs of your business.

- An extensive library of resources.

Subscribe to the UnFound newsletter to be informed of any upcoming business support available for platform co-ops.

Part 1: The context of raising finance as a platform co-op

Platform capitalism

Platform co-ops offer a viable and ethical alternative to platform capitalism, a system where global organisations capture huge profits from the online transactions between consumers and vendors, who have little or no control over the platform and company they use to trade.

Platform capitalism is both the product and the fuel of the unequal economic system we live in, where wealth is concentrated in the hands of a few through the abuse of workers' and privacy rights. It is driven by the incentive to maximise financial returns for investors, rather than benefit users.

> **The current financing ecosystem has failed both entrepreneurs and our future economy. It holds back our societies as a whole.**
>
> – Exit to Community Primer

Venture Capital financing

The most dominant platforms we see today are supported by Venture Capital, a financing model that aims for extremely high financial returns. Venture capitalists (VCs) place large investments in early stage businesses with prospects of high growth. Their business model involves investing across a range of high risk companies with the expectation that only a few will succeed. High returns are expected from those that do, to cover the cost of those that don't.

VCs bet on a speculative future valuation of a business and usually aim for a successful "exit", which happens when the business is sold to another company or launches a public offer of shares, also known as an Initial Public Offering (IPO). If the sale or the IPO is successful, VCs gain huge profits due to the increase in value of the shares they held.

As a result, the story start-up founders are being told is that their company's primary aim should be a successful "exit" and that maximising shareholder profits should be prioritised, no matter what effects that might have on the users of the platform or the externalities the platform may cause on society and our planet.

The start-up ecosystem today

The current start-up financing ecosystem is also exacerbating gender and racial inequality.

A study from 2017 showed that in the UK 83% of founding teams receiving VC funding were all-male teams. Only 4% were all-female teams and they received less than 1% of the total investment.

Data on founders from minority backgrounds is lacking in the UK, but from the US we know for example that only 0.02% of venture capital is allocated to Black female founders.

The VC workforce is in itself far from diverse. In the UK only 24% of people working in VC companies are non-white and only 30% are women – of which only 13% in senior roles. This data shows us that the success of a founder's journey still depends too much on social capital and on investor-bias.

Platform co-operativism

Not all founders are driven by the sole interest of building up wealth for themselves and their investors at the expense of others. Many are genuinely driven by passion and the intent to build products and services that can truly improve people's lives as well as the conditions of the planet we live on.

Platform co-ops offer a radically different route. A platform co-op is set up to benefit its members, who are those that give it life and depend on it the most. The pursuit of profit at all costs is not the goal. Instead surplus is reinvested in the organisation or shared with its members so that the platform's community can continue to benefit from it.

To start, grow and flourish, platform co-ops also need external finance, but they seek forms of funding aligned with the co-op principles and values.

They can access ethical funding opportunities that are emerging from the start-up ecosystem as well as adapt existing funding models successfully used by the co-op sector.

Co-ops might not grow as rapidly as "unicorn" businesses (start-ups valued at over $1 billion), but they can be attractive for investors as they are generally more resilient and less risky than other forms of businesses.

Co-ops are needs-driven ventures, with strong relational ties with their stakeholders who are invested in seeing the co-op succeed.

As a result 76% of co-op start-ups are still flourishing after the first five years compared to 42% of standard business. This percentage increases to 92% for co-ops that have raised finance through community shares – a type of equity specific to the co-op and mutual sector.

Part 2: Understanding finance

What is finance?

Finance, simply put, is “other people’s money”. It is funds that other people or organisations are prepared to give to you to further the aims of your business.

External finance usually comes with strings attached

Funders will provide finance based on their own business model and aspirations, and will expect something in return, which could be monetary, or could be related to the impact of your business on sectors your funders want to support.

Funders can come in all shapes and sizes

They can be individuals in your community, local businesses, a large grant funder, a bank or a government body. What they have in common is that they believe in the success and importance of your business idea - and are prepared to put their money in it.

The relationship with your funders will depend on the formal agreement you have with them

A formal agreement will outline what you will give to the funder in exchange for the funds they will be providing. However, it is important not to regard finance as merely a contractual agreement. It is potentially much more.

Funders are invested in your business and will want to see it succeed, so they may be keen to support you in other ways, for example providing you with contacts, advice and visibility.

Choosing the right funders will be important for the success of your business

The more aligned your funders are with your mission, the more support you are likely to receive, including more favorable terms in your agreement.

You should be wary of funders who expect you to modify your mission to obtain their funding, especially if their main motive is to gain huge profits from your success.

Finance for platform co-ops

Finance for platform co-ops is based on seven co-op principles that provide guidance on how to safeguard the mission of your organisation.

Each type of finance has its pros and cons and can be more or less appropriate for the different stages or needs of your business.

External finance will be mostly necessary at the start of your journey or when you are looking to grow the business or test a new idea for a product or service. The type of finance you aim to raise might also influence your choice of legal form.

Finance and co-op principles

Finance for co-op organisations should be guided by the seven co-op principles that are protected by the International co-op Alliance.

The following states the seven co-op principles (with their *definition in italics*), with some added commentary for platform co-ops.

The seven co-op principles – and what they mean for platform co-ops

1. Open and voluntary membership

Co-ops are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

For platform co-ops, external finance should not impose restrictions on membership, and it should avoid exclusionary conditions, for example high membership fees or share prices.

2. Democratic member control

co-ops are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions.

Members' voting rights are independent from the number of shares they hold in the business – "one member, one vote" instead of "one share, one vote". This makes co-op businesses very different from conventional businesses and can be a deterrent for funders who want to have control over a business.

As long as co-ops are run democratically, they can choose to form more or less complex democratic structures, with elected representatives accountable to their members.

Members can be also divided into stakeholder groups whose votes are weighted differently to reflect the way founding members would like power to be distributed in the organisation. This type of structure – called a multi-stakeholder co-op – is very common among platform co-ops.

3. Members' economic participation

Members contribute equitably to, and democratically control, the capital of their co-op. Members allocate surpluses for any or all of the following purposes: developing their co-op; benefiting members in proportion to their transactions with the co-op; and supporting other activities approved by the membership.

Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. When issuing shares, interest and dividends should be just high enough to attract and retain capital. Fundamentally, a co-op cannot be set up with the main aim to generate profit for its shareholders.

At least part of that capital is usually the common property of the co-operative and must be used *to further its purpose.* A co-operative can specify in its governing document details about the indivisible reserves, which can also be protected by a Dissolution clause, prohibiting its distribution among members should the co-operative be dissolved. This is sometimes referred to as an asset lock.

4. Autonomy and independence

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

The co-op needs to be confident that large investors cannot have too much influence on the co-op. That might mean restrictions on the proportion of share capital that can be held by one person or organisation, or a veto on the transfer of shares to persons that the co-op does not approve of.

In any case – no matter how many shares an investor holds in a co-op – they will have only one vote. This can be a deterrent for funders such as Venture Capitalists, that require to have some control over the company.

5. Education, training and information

Co-ops provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-ops.

This should include providing education, training and clear and accessible information to members on financial issues, so they can fully understand the financials of their business and be actively involved in financial decision making.

Training and education should include and follow co-op principles and values.

6. Co-operation among co-ops

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

Co-operation can come in the form of investment of one co-op into another – or of pooling of resources between existing co-ops for a common purpose, like in the case of platform co-ops that use a federated model.

7. Concern for community

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

Co-ops tend to undertake activities that benefit and have a social impact on the wider community as well as its members. A co-op’s rules must preclude investors from pursuing short term profit over the long term interests of the co-op and concern for the community.

Co-op legal structures

The type of finance a business or organisation aims to raise will have some influence on the choice of their legal form – and vice-versa.

Not all entities can use all types of finance, and some legal forms might be more favourable than others to certain funders.

Here is a short description of each legal form. For more detail please consult our Simply Legal guide or contact our advice team.

Common legal forms

1. Limited companies

Limited companies are corporate bodies registered under the Companies Act 2006 and come in three forms:

- Public Limited Company (PLC)
- Private Company Limited by Shares
- Private Company Limited by Guarantee.

Companies register with Companies House and are relatively low cost and quick to set up.

Some platform co-ops (Open Food Network UK) have chosen to set up as a Company Limited by Guarantee. We are not aware of any platform co-ops currently set up as Private Companies Limited by Shares or Public Limited Companies.

2. Limited Liability Partnerships

Limited Liability Partnerships (LLPs) are subject to the Limited Liability Partnership Act 2000, must register with Companies House and by law must be engaged in profit-making activities.

We are unaware of any platform co-ops set up as LLPs.

3. Societies

Societies are corporate bodies registered under the Co-operative and Community Benefit Societies Act 2014 in England, Wales and Scotland or the Industrial and Provident Societies Act (Northern Ireland) 1969 in Northern Ireland.

Societies register with the Financial Conduct Authority (FCA) with model rules that can be modified at a cost.

A Society can be either registered as a Co-operative Society or a Community Benefit Society. A Co-operative Society can convert into a Community Benefit Society, but not vice-versa.

- A Co-operative Society is run for the mutual benefit of its members based upon their common economic, social and cultural needs or aspirations and in line with the seven co-op principles.
- A Community Benefit Society is run primarily for the benefit of the community at large, rather than just for the members of the society. This means that it must have an overarching

community purpose that reaches beyond its membership.

A Society is the preferred legal form for platform co-ops in the UK as it tends to reflect the mission and membership structure for these types of organisations, as well as provides the advantage of raising share capital.

Depending on the purpose of the platform co-op, some have chosen to set up as Co-operative Societies (Equal Care Co-op, Signalise) and others as Community Benefit Societies (Bristol Cable, Positive News).

Other legal forms

In addition co-ops, depending on their legal form, can choose to identify as Community Interest Companies or Charities. This is usually the case when they wish to subject their social mission to strong external regulation and can demonstrate that their activities satisfy the necessary conditions.

Community Interest Companies (CICs)

Limited Companies can also be set up as Community Interest Companies (CICs), which are regulated by the 2005 Companies (Audit, Investigations and Community Enterprise) Act. To qualify as CICs companies need to pass a community interest test and need to have an asset lock. CICs need to register both with Companies House and the CIC Regulator.

Some platform co-ops have chosen to set up as a CIC with the legal form of a Company Limited by Guarantee (Open Food Network).

Charities

Co-ops set up as Companies Limited by Guarantee or Community Benefit Societies can also choose to apply for charitable status.

To be recognised as charitable, a co-op must be able to demonstrate that it operates for the benefit of the public and that its activities fall wholly within one or more of the charitable purposes set out in the legislation of the country in which they are registered.

In England and Wales, Companies must register with the Charity Commission, in Scotland with the Office of the Scottish Charity Regulator (OSCR), in Northern Ireland with the Charity Commission for Northern Ireland (CCNI). Community Benefit Societies instead should first register with the FCA as a society and then apply to HMRC to be recognised as charitable for tax purposes.

Once registered, a charity may only cease to be such by converting to a Community Interest Company with the permission of their countries' charity regulator or by winding-up or merging with another charity.

We are not aware of any platform co-ops set up as charities in the UK.

Types of finance

External funding can be divided into two categories:

- Non-repayable finance – money you do not need to pay back. This includes donations, grants and sponsorships.
- Repayable finance – money you are expected to return. This can come in the form of equity or debt, or their permutations, sometimes referred to as quasi-equity.

In the next chapters we summarise some of the characteristics. For further information consult our Simply Finance guide.

Co-ops and non-repayable finance

Donations

Donations are funds given by individuals or organisations without specific terms attached to them. Donations are usually given to support the general mission of your organisation, or a specific project or activity.

Platform co-ops can collect donations by adding a donation button to their website, as well as their social media platforms, allowing donors to give one-off donations, or set up a recurring donation.

Platform co-ops should consider launching regular calls for donations, particularly in conjunction with certain activities, for example when running an event, or producing a valuable resource for the community.

An effective way of collecting donations is via a crowdfunding campaign, which usually involves setting up a campaign for a specific period of time to raise a predetermined target of funding. Crowdfunding campaigns can be donation based, or can provide rewards to donors that go from a simple acknowledgement on your platform, to providing priority access to your services. Crowdfunding campaigns require a clear marketing strategy and a big effort to make them successful, but they are an invaluable way of testing if there is appetite for your business idea and identifying potential users.

Grants

Grants are usually provided for a specific purpose and have a time frame (grant period) within which your organisation needs to deliver the outputs agreed with the funder. If the business is unable to deliver on it's agreement, then usually the grant funder will expect part of the money to be returned. Each grant funder will have a set of priorities that determine the type of activities they are interested in funding. Platform co-ops with a clear social mission are more likely to access grant funding.

Requirements from grant funders, both in the application process and once the grant is approved, will vary immensely depending on the funder and will be proportionate to the amounts you are applying for.

Grant funding tends to be easier to access if they are for a specific purpose, rather than to cover core costs of running an organisation.

Some grant funders might only fund charities and CICs, but more and more are now open to funding co-ops without a charitable status, though they might require an asset lock, or a dissolution clause prohibiting distribution of reserves among members.

An interesting way of raising funds for co-ops is the use of match-funding, where a funder agrees to match funds raised from the community or the members via a crowdfunding campaign, which can be either equity or donation based. Match-funding usually provides a boost to crowdfunding campaigns as it has the effect of providing assurance to individuals that the organisation is worth investing in.

Grant funding for platform co-ops in the UK is still sporadic and tends to be available to those operating in specific sectors. Co-operatives UK is monitoring the grant funding landscape for platform co-ops and maintaining a database of #TechForGood funders.

Sponsorship

Sponsorship is funding provided by another organisation in exchange for some form of recognition within a project or an event that can contribute to improving their reputation.

Sponsorship is advised only if there is a clear alignment with the sponsor, as alternatively it could cause reputational damage to the organisation. Sponsorship is most effective when associated with the delivery of a specific activity, for example an event, or a resource, a newsletter.

Co-ops and equity

Equity is money that is invested in a business in exchange for a stake in it. This usually involves ownership and governance rights as well as ways for investors to have a share of the profit of the business.

Depending on their legal form, co-ops can issue different types and classes of shares based on the benefits and conditions attached to them, which must fully respect the seven co-operative principles.

Equity can be a powerful form of finance for platform co-ops, as it is a way to increase your funding hand-in-hand with growing your community. Given the potential for scale of platform co-ops, this funding stream could provide significant capital for the business.

Types of shares

Co-op shares are classified based on whether they are:

- Transferable or not to other shareholders.
- Withdrawable or not by shareholders.

Membership shares are usually non transferable and non-withdrawable and tend to be fixed at a nominal value.

Membership shares are issued when someone joins the co-op, and are cancelled and transferred to the general reserves of the co-op once the shareholder ceases to be a member.

The rules determining how membership is terminated are important in deciding the price of a membership share. For example, a co-op can charge a member an annual subscription, and non renewal of the annual subscription is normally grounds for terminating membership.

Issuing membership shares is not a regulated activity according to the Financial Services and Markets Act (FSMA).

Transferable, non-withdrawable shares are shares that can be traded, but not withdrawn.

A co-op is free to issue transferable shares, as long as provision is made for this in its governing document. Since the shares can't be withdrawn, such share capital is part of the permanent capital of the co-op.

Since 2012, there has been no upper limit on the amount of transferable share capital an individual can hold in a co-op. A share offer of transferable shares is a regulated activity according to the FSMA and therefore it must respect certain requirements which can be costly to fulfill.

We advise co-ops thinking of issuing transferable shares to consult a regulated person or company before launching a share offer.

Withdrawable, non transferable shares are shares specific to the co-op sector and can only be used by societies.

They can be withdrawn, but cannot be transferred to someone else (unless a member dies, in which case their shares are transferred as part of the member's estate). These shares are very different from shares in standard companies, as they cannot gain in capital value, instead they offer shareholders a return in the form of interest.

Share offer terms can specify the period of notice for a withdrawal and the proportion of total share capital that can be withdrawn at any one time, including a period of non-withdrawal and/or no interest payments in the first years after the share offer. The terms will also set out the rights of the management committee or the board to suspend, in certain circumstances, withdrawal or interest payments, or to limit the withdrawal amount or provide reduced interest payments.

It is the responsibility of the co-op to monitor its capacity to repay the shares to investors if requested to (liquidity).

There is a legal limit on the amount of withdrawable share capital that can be held by an individual member – currently standing at £100,000 – unless the investor is another co-op, in which case there is no limit.

A share offer of withdrawable, non transferable shares is not a regulated activity according to the FSMA, and therefore has less scrutiny and lower costs to launch compared to other types of share offers.

Withdrawable, non transferable shares have been used extensively by co-op Societies and Community Benefit Societies. In addition in 2012 The Community Share Unit (CSU) was established to promote these types of shares under the brand of Community Shares. The CSU developed the Community Shares Standard Mark to provide guidance and confidence in the unregulated market and set up with Power to Change the Community Shares Booster Programme to provide match funding to Community Shares offers. Since 2012, £155 million has been raised in community shares from over 100k investors.

Share classes

In addition to the types of shares, co-ops can issue more than one class of shares of the same type, with different rights attached to each class. These rights often relate to membership and voting rights that are clearly stated in the governing document of the co-op.

Different classes of shares might offer different interest rates to their shareholders. For example a co-op might offer higher interest rates for investors at the early stages of their start-up (pioneer offer), compared to those that invest at a later stage. Or a share offer that doesn't allow withdrawals for a few years might offer higher interest rates than one that allows it sooner. A multi-stakeholder co-op might also issue different classes of shares based on its membership, for example it could have different classes of shares for its employees and its founders if these form separate membership groups.

Co-ops and debt

Debt is money that is given with the expectation that it will be repaid in full, but that does not usually entitle the funder to other rights in your business.

In most cases a lender expects you to pay a "rent" for the money in the form of interest payments, which can be fixed or variable. Debt will have a schedule of repayments at the end of which (term) all the money owed from the debt and interest should be paid.

You might incur large fines if you are unable to honour your interest payments or repay the funds at the end of the term. In some cases you will have to pay a penalty fee if you decide to repay the debt early, that will cover the cost of the interest payments the lender was expecting to receive over the borrowing period.

Usually, the funds received can be used for any purpose at the discretion of the business owners, with no need to report to the lender, which will have no involvement in your business. However there can be cases where funds are offered for specific purposes with particularly favorable terms, for example when issued by the government.

Debt mainly comes in the form of loans or bonds:

- The terms of a loan are usually set by the lender, or are the result of a negotiation with the borrower.
- Bonds instead are issued by a co-op with a predetermined value and interest rate, which can then be acquired by bond holders, which in the case of co-ops can be the community that they serve.

Debt can also be backed or not by a security or guarantee. In some cases a lender will put some extra conditions on the debt, to protect their money should the borrower not be able to pay back what is owed. These are called securities and can come in different forms. For example an asset-backed security loan is a loan backed by a specific asset, which would become property of the lender should the debt not be paid back.

Unsecured debt is clearly less risky for a co-op, but will tend to have higher interest rates and might be harder to obtain.

Platform co-ops might find it difficult to access debt financing in their early stages especially since they often lack physical assets to use as securities. However, there are many different types of debt arrangements so it is worth exploring your options at every stage of your journey.

As it does not involve governance issues, debt financing for co-op is not dissimilar to that of other types of businesses so we will not go further into detail here.

Co-ops and quasi-equity

Quasi-equity is a form of capital which blends debt and equity properties. There is an increasing variety of financing options of this type as the funding landscape for start-ups starts to diversify.

Here we cover two that are particularly relevant to platform co-ops: sweat equity and revenue based finance.

Sweat equity

Sweat equity is a form of finance that accounts for the time and resources that people put into a start-up unpaid, usually at the early stages when there is limited funding or revenue available to cover costs.

The simplest way to account for sweat equity is to record the hours that are worked unpaid, and agree when they will be paid, which can be by a certain date or when the co-op reaches a certain income. In this case, the sweat equity should be recorded as debt.

An alternative is to issue shares to workers in exchange for their labour. In order to use this approach, the co-op will need to have a suitable legal structure that allows shares to be issued to employees and for them to be converted into cash should the employee leave, or when certain conditions are met.

Sweat Equity must be declared for income tax purposes and is taxable when the payment is due.

Revenue Based Finance

Revenue based finance (RBF) is a type of finance where an investment is made in exchange for a fixed percentage of ongoing revenue, until an agreed cap is reached, which is a multiple of the original investment.

With RBF, repayments vary and are calibrated to the performance of the business in a given moment of time – when it is going well, payments are high; when it is not going so well, payments are low.

Some RBF deals include thresholds below which repayments are not requested, so that when revenue is low or nonexistent the co-op can prioritise keeping the business afloat over their repayments. This is a very interesting form of funding for platform co-ops that have the potential to scale rapidly, but that might need to incur high start-up costs before they can start generating large revenue.

However, the cost of RBF is usually high, typically 3-4 times the original investment, and a co-op will have to prove that their revenue model is viable.

RBF investors might also put constraints on what the funds can be used for or include clauses which give them the right to transform their investment into equity should the enterprise decide to issue shares. In most cases, investors will not expect voting rights with the shares, but they will want to not lose out, should transforming their investment into equity be a more profitable option.

Tax and co-ops

Tax treatment of co-ops

Co-ops have to pay Corporation tax, VAT (above a certain threshold), Capital Gains tax, Stamp Duty tax as well as Income tax of their employees via PAYE.

LLPs do not pay Corporation Tax or Income tax of partners via PAYE, instead partners are taxed on their individual income which they declare through their self-assessment.

Co-ops set up as Charities:

- Are exempt from Corporation tax and Capital Gains tax, as long as profits are used to achieve the charity's purpose.
- Are exempt from paying Stamp Duty Land tax on properties purchased by them.

- Have a 80% business rate relief for properties that are completely or mainly used for charitable purposes.
- Are not exempt from paying VAT, however certain goods and services provided or bought by a charity may be exempt
- May claim back some of their donors income tax using Gift Aid.

Tax treatment of investments in co-ops

Investors pay tax on the interest they receive from their equity. This applies to both individuals and organisations, though individuals have a personal allowance based on their overall income.

In the case of charities, funders can claim tax reliefs in the form of Income Tax relief for individuals and Corporation Tax relief for organisations.

There are also a variety of schemes promoted by the UK government to support investment in small and medium companies and social enterprises. Schemes offer tax reliefs and loss protection to individuals and organisations who invest in early stage enterprises, creating an effective incentive to support businesses such as platform co-ops.

Tax reliefs come in the form of Income Tax relief and Capital Gains Tax relief. Income Tax reliefs can be claimed only by people who are not directly connected to the business. This is not a condition for Capital Gains Tax relief.

To apply an organisation must:

- Be established in the UK.
- Carry out a trade that qualifies for the scheme and plan to spend the investment on the qualifying trade.
- Not be listed on a recognised stock exchange at the time of investment.
- Not be controlled by another company.

For each scheme there are also restrictions on the type of shares that can be issued and the type of activities that the funds for the investment can be used for. Below are summarised some of the main characteristics, but for further information please visit the UK government website.

Seed Enterprise Investment Scheme (SEIS)

Your platform co-op may qualify for SEIS if it is less than 2 years old, and at the time of investment has no more than £200k in gross assets and less than 25 employees. The maximum amount an organisation can raise under SEIS is £150k. There is no lower limit.

The maximum amount an investor can claim under SEIS is :

- £100,000 on 50% of their investment in Income Tax relief.
- £50,000 on 50% on their investment in Capital Gains Tax relief on assets sold in the same year.

When an investor chooses to divest their shares:

- If they make a profit, they will not have to pay any Capital Gains Tax if they have held the shares for a minimum of 3 years.
- If they make a loss, they can set the loss amount, less any Income Tax relief already given, against their income.

Social Investment Tax Relief (SITR)

Your platform co-op may qualify if it is either a Community Benefit Society, Community Interest Company or a Charity and at the time of investment has no more than £5m in gross assets and fewer than 20 employees. The maximum amount an organisation can raise under SITR is £1.5m over its lifetime.

The maximum amount an individual can claim under SITR is:

- £1 million on 30% of their investment for Income Tax relief.
- £1 million on 100% of their investment for Capital Gains Tax relief, until they divest from the scheme, on assets sold within 3 years of the investment or one year before.

When an individual chooses to divest their shares they will not have to pay any Capital Gains Tax if they have held the shares for a minimum of 3 years.

Enterprise Investment Scheme (EIS)

Your platform co-op may qualify for EIS if at the time of investment it has been trading for less than seven years and at the time of investment it has no more than £15 million in gross assets and less than 250 employees.

The maximum amount a platform co-op can raise under EIS in its lifetime is £12 million. There is no lower amount.

The maximum amount an individual can claim under EIS is:

- £1 million on 30% of their investment for Income Tax relief.
- £1 million on 100% of their investment for Capital Gains Tax relief, until they divest from the scheme, on assets sold within 3 years of the investment or one year before.

When an individual chooses to divest their shares they will not have to pay any Capital Gains Tax on profit if they have held the shares for a minimum of 3 years.

Part 3: A step-by-step guide to raising finance

What to consider when raising finance

Raising finance is not a linear process and an organisation should look at using multiple forms of finance simultaneously in each phase of its journey. It is also important not to become dependent on one form of finance or the other and more broadly on external finance all together.

Co-ops should aim for a business model that generates sufficient revenue to sustain the business over time and reduces the need to depend on external finance to survive. A business will be sustainable as long as there is adequate demand for its products and services, that the costs to carry them out are proportionate and the processes to deliver them are efficient.

Whatever phase you are in, if you decide to raise external finance, you will need to be *investment ready and* know your *funding runway* and justifiable ask*.* You must also have a clear idea of what *risks* you want to take and what *returns* you are prepared to offer to your funders and what relationship you would like to have with them.

Investment ready

Being investment ready means being prepared for the questions your funders will ask about you and your business before providing you with funds. How much information you provide will depend on the phase you are in, the type and the scale of the funds you are seeking and the type of funder you are engaging with.

In this chapter we provide some minimal guidelines, but each funder will have their own requirements or aspirations. It is good practice to focus on having everything in place to be investment ready as soon as you enter a new phase, so that if new opportunities arise, you can move quickly and not lose valuable opportunities.

Fundamentally you will need to be able to show you have a clear purpose, a compelling business case, a team with the appropriate skills and a track record of delivering outputs.

Funding runway

A funding runway is the amount of time before your organisation runs out of cash. A start-up funding runway usually indicates the months that it takes an organisation to “take-off”. If the runway is too short, the start-up won’t have enough time to launch; if it is too long, it might become too expensive.

Your funding runway should help you determine your justifiable ask, the amount of funds you need to take you to the next milestone, which, at the start-up phase, should be no more than 18 months away.

Risk

You should have clarity as an organisation about the levels of risk that you are prepared to take. Every business carries a certain level of risk determined by internal and external factors:

- A risky enterprise has the potential for both high returns and disappointment and can be both stressful and exciting.

- A low risk enterprise will tend to follow well trodden paths and develop at a pace that allows it to take safe decisions.

Based on how risky your business idea or product is, you will attract more or less risk-averse funders.

High risk ideas might be easier to fund with grants where monetary returns are not expected. In the case of debt and equity, you might need to offer higher returns to your funders to compensate for the shared risk they are taking. You will also need to factor in what extra risk you are taking on as a business by offering high returns and what could happen if you are unable to deliver the agreed outputs or returns to your funders.

Involvement from funders

Each type of finance will also come with a different degree of involvement from funders. It is good to identify in each phase what type of involvement you are looking for. You might want to invite them to be members, or to join your board as a co-opted member, or you might prefer to find funders that do not want to get involved in the business. There will be advantages and disadvantages to consider in each case depending on the stage of your business.

Set-up: Phase 1 – exploring

You're at the very first stage of developing your platform co-op idea. Now is the time to research your market, define your stakeholders and their needs and understand if a co-op is right for you.

Find other people to work with that share your vision and that can bring skills and networks to support its development.

It's still early to set up as a business, but there are forms of finance you can already access. Founders tend to secure around £5,000 in this initial phase. This won't take you very far, but it is a good way to test if there is appetite for your business idea.

Available funding

- You and your fellow founders will most likely be working on the business idea unpaid, so you will be relying on savings and other personal income sources you already have to keep you going.
- You can ask friends and family who believe in your idea to provide financial support. This can be done informally or by setting up a personal donation based crowdfunding page.
- You can apply for grants. As you are not set up as a business, you can:
  - Apply for grants that do not require you to be set up as a legal entity – for example grants for individuals.
  - Ask an existing organisation to act as a sponsor. It might be an organisation you are already part of, or another organisation that is aligned to your mission.
- You can rely on support 'in kind' from friends, family and organisations that are supportive of your mission. This can come in many forms and should not be underestimated, especially in these early stages. Examples of useful support in kind include access to workspace and

equipment, access to relevant networks and expertise, and referees for grant funding or promotional support for your crowdfunder.
- You can use digital tokens or ledgers to record the amount of work and resources initial members or founders put into a company and determine how this will be compensated in the future (sweat equity).

What you need before you start raising funds:

Fundamental

- A working title for your business, even if it is not the final one. It will help you build your business profile and get recognised.
- A mission statement which is a single phrase or paragraph that summarises the "who, what, why, when, where, how" of your organisation.

Ideal

- A landing page, a one page site with basic information about your mission and a way to get in touch with you
- A social media presence on the most appropriate social media platform for your audience. Use it to start building your user base, understanding their needs and testing your ideas.
- A network of people you can rely on for support and advice with varied skills and expertise.

Case Study: Guerrilla Translations and contributing accounting

Guerrilla Translation is a platform co-op of translators that offers a variety of communication and translation services alongside publishing translated political content on their digital platform.

They use contributive accounting, shaped around feminist economics, a form of accounting where contributions to a shared project are logged to ensure fair distribution of income. The system is quite complex, but can be summarised as follows.

- All members create value.
- Part of this value is processed through services they offer and is converted into monetary value, which is then pooled and distributed to benefit different value streams.
- There are three value streams based on the type of work delivered:
    - *Pro bono* work
    - P*aid* work
    - C*are* work.
- Each value stream has its own credit system and members track their credits separately depending on the type of work they deliver.
- On a regular basis and based on the income the co-op receives in that period, credits are then converted to money.
- Credits that have been paid are called divested credits, those that haven't yet, are called invested credits.

Based on their experience Guerilla Translations are developing a model that other organizations can adopt called DisCO, which stands for Distributed co-op Organisation.

Set-up: Phase 2 – founding

You’ve decided the co-op model is the best way of developing your platform and you have co-founders ready to take the next steps with you (co-op Companies and LLPs must have at least two founding members, while a Societies must have three).

You are now ready to set up as a co-op and start running your business. Co-operatives UK provides a handy step-by-step tool for this phase, as well as useful resources, such as Simply Legal and Simply Governance.

In this phase platform co-ops tend to raise around £10,000-30,000. This is used to cover the set-up costs and some of the time founders spend working on the business.

Available funding

- Since you now are a legal entity, but are not yet revenue generating, this is the ideal time to launch a donation based, or reward based crowdfunder.
- You can also formalise agreements with your team on how everyone's input in the organisation will be rewarded at a later stage through sweat equity.
- As a legal entity, you are now in a better position to apply for grant funding. Consult UnFound’s database of #TechForGood funders.
- Apply for early stage accelerators and business support programmes, some of which also offer small development grants too. Co-operatives UK offers business support on an ongoing basis via The Hive and specifically runs an accelerator programme via UnFound.
- You might want to consider a favourable overdraft when opening your bank account to allow for variations in your cash flow. However this should be considered carefully as it can be quite expensive due to the high interest rates.
- Consider leasing equipment or paying for it in instalments. Though this will be more expensive than buying equipment outright, when setting up, this might be the only way to pay for the equipment you need.
- You will still be relying on most of the funding streams of the previous phase:
  - Your own savings and other income sources you already have.
  - Support from friends and family.
  - Support in kind.

What you need before you start raising funds

Fundamental

- An agreed name for your business and an updated mission statement.
- A clear governance structure, identifying who the founding members are, how new members join and the democractic processes that guarantee that the co-op is accountable to its members.
- Incorporation as a legal entity. Choose the most appropriate legal form and co-op model for your business and register your co-op.
- A business case describing the specific outputs or transaction that will advance the mission

of the business. It should indicate:
    - The benefit to the customer, compared to other similar transactions or output.
    - The process by which the outputs are delivered.
    - The inputs from which the outputs are generated.
    - The ways in which these things contribute to the mission.

- Market research that proves the need for your business.

- A business plan, which is a plan of how your business will be set-up and developed. It describes in detail the "who, what, why, when, where, how" of your business set up and operations. It will also include your first financial projections.
- Once you are incorporated you will need to set up a bank account to accept funds and pay for your expenses. The Co-operative Bank, which supports The Hive and UnFound, offers a bank account for co-ops.

Ideal

- A website explaining more in detail your business idea, with clear contact details and a form to collect expressions of interest from potential users.
- A regular newsletter to keep your supporters informed.
- An increased online presence and supporter group.

Case study: The Bristol Cable's successful grant funding

The Bristol Cable is a media co-op created and owned by people in the city of Bristol. It is a platform for people to engage with their communities and hold power to account in their city and wider society.

Since 2013 when it was founded, the Bristol Cable has raised more than £880,000 in grant funding. For the first years, the grants obtained were in the order of £1,000-5,000 and were used for core funding and market research (Lush, Nesta, Moondance foundation).

From autumn 2015 onwards they were able to raise ever larger grant funds to cover their core costs, going from £80,000 for two years in 2015 (Reva and David Logan Foundation), to £350,000 for three years in 2020 (Luminate).

At the same time they raised smaller project-based grants from Nesta (£41,000), Centre for Investigative Journalism (£5,000), Joseph Ronwtree Reform Trust (£6,500).

The Bristol Cable is now transitioning towards a more sustainable business model which is less reliant on external finance, and instead generates income via membership subscriptions and ethical advertising.

As of May 2020, these streams accounted for 37% of their income including 2100 membership subscriptions. The Bristol Cable is a Community Benefit Society and was supported by Co-operatives UK through the Carnegie Trust's media innovation fund.

Pre-seed: Phase 3 – testing

You're now officially a co-op and are ready to test the market with your product. To do so you build low cost prototypes that you start to test with your first users.

Aim to start generating revenue with a small dedicated user-base prepared to experiment. Start developing your internal processes and identifying the roles that you will need to grow the business. Platform co-ops have raised £50,000-150,000 in this phase.

Available funding

- If you are able to generate a small revenue at this stage, you can choose to boot-strap your business. This means relying on the same type of funding of the set-up phase, and growing your business only thanks to your progressive increase in revenue. Though this is a preferred option for some businesses, it won't fit most platform co-ops that will aim to grow faster.
- With a recognised brand, you could seek sponsorship from an aligned organisation. Sponsorship should be tied to a specific output, like a newsletter, a series of events, promotional material, etc.
- Now that you are developing a Minimum Viable Product (MVP), grant funding is an ideal option, especially if the product has a clear social mission. Consult UnFound's database of #TechForGood funders. [here]
- Crowdfunding is still a useful way of raising finance, especially if you didn't use it in the previous phases. Now that you are developing your offer, you can use a reward based crowdfunding as a way to start selling your first services or products.
- Agree credit terms with your suppliers that allow you to manage your cash flow. Suppliers can, if you cultivate a good relationship, be part of your wider support network. It is in their interest that potential customers succeed in their business.

What you need before you start raising funds

Fundamental

- All of the milestones indicated in the set-up phase.
- A team able to run the business and build prototypes.
- A small user base prepared to test the prototypes.
- A recognisable brand.
- An increasing and engaged social media following and newsletter subscription rate.
- Clarity on your funding runway and justifiable ask.

Ideal

- A small revenue from the products and services you're testing that help to cover some costs and to prove that your business case is correct.
- Expressions of interest from potential users.

Case study: Signalise raise funds via a rewards-based crowdfunder

Signalise is building a platform co-op to hire British Sign Language (BSL)/English interpreters and translators. The multi-stakeholder co-op will serve its members comprising of Deaf people, health staff and interpreters.

In October 2020 Signalise launched a reward-based crowdfunding and raised £8,600 from 255 supporters in 28 days. Rewards went from a simple mention as a supporter in their website (£5) to a voucher to cover the admin cost of 10 BSL interpreter bookings (£200).

By doing so, they used the crowdfunder to test the appetite for the services they aim to provide.

Signalise is set up as a Co-operative Society. The co-op is still at an early stage of development, but has already an online booking form and has currently raised £73,000 in grant funding and donations.

Co-operatives UK supported Signalise with business support via The Hive.

Phase 4: Building

You have a tested business model and a working Minimum Viable Product and you want to launch your platform and grow your membership.

Up to now you have relied predominantly on non-repayable finance, but you now have the grounds to raise more significant amounts of funding in the forms of equity and debt. These funds are usually used to navigate the so-called “valley of death” – the phase in which you need to start growing more rapidly as your revenue from trading is not yet covering your running costs.

Platform co-ops have raised £200,000-400,000 in this phase, but the amount your co-op will need is dependent on your specific sector and business model.

Available funding

- If you are set up as a Society now is an ideal moment to issue your first time-bound offer of withdrawable shares and start building your membership (pioneer offer). Co-operatives UK offers Societies business support for their share offer via The Hive and the Community Shares Booster Programme.
- Grant funding and sponsorship still remain funding streams that are worth pursuing. An interesting way to attract this kind of funding is by asking funders to participate in your equity share offer. They can do so by investing a specific amount or by match funding. This is when a funder agrees to invest in your organisation by matching the funds you raise from your community, up to a pre-agreed upper limit. Match funding often helps boost share offers – not only by contributing the funds, but also by giving more confidence to other people to invest, therefore attracting more investors and larger sums.
- Now that you have defined products and services, you could ask users to pay in advance for a product, especially if the payments are low. Advance payments could offer extra benefits, for example allowing users to pay in regular, predictable instalments, or to access new features before other users.

What you need before you start raising funds

Fundamental

- A tested business model and robust financials with which you can go to your funders with confidence.
- A working Minimum Viable Product you can use to show how the business can operate.
- Clear roles, responsibilities and processes for running your business.
- An increased profile and reputation to attract investors and members.

Ideal

- Growing revenue from your products and services.
- Expressions of interest from potential investors.
- Ongoing relationships with grant funders.

Case study: Equal Care Co-op and their pioneer share offer

Equal Care Co-op is a care and support-co-op based in the Upper Calder Valley that puts care givers and receivers in charge.

In summer 2019 they launched their first pioneer share offer of non-transferable withdrawable shares with a share price of £1, an interest rate of 3% and a minimum investment of £100.

In two months they raised around £410,000 from 166 investors, with an average investment of £2,375. New members did not have access to the platform before the share offer, but their investment showed their desire to engage with the service and to support its purposes.

The share offer was supported by two investments from grant funders in the form of match-funding:

- £74,000 from Open Society Foundations, as part of their support towards the platform co-op movement
- £100,000 from Power to Change, in recognition of local communities being at the center of the co-op's mission.

The investment was provided in the form of grants to Co-operatives UK, who then invested in the co-op on behalf of the funders.

If we exclude the institutional investment, about 20% (£45,000) of the remaining funds were raised from 23 investors in Hebden Bridge, where the co-op is based. In addition there were two other locations from which the co-op was able to raise significant funds (Norwich and Leeds) showing how a share offer can be an opportunity to identify where to start building new local networks.

Among the investors there were also two other co-ops, demonstrating how equity share offers can be a great way for the co-op movement to exercise principle six – co-operation among co-ops.

Due to the nature of withdrawable shares, no matter how much a funder invested in the co-op, they still only hold one vote.

In addition, Equal Care Co-op's multi-stakeholder structure gives their investors class a 10% weighting in comparison to the other members it aims to serve: providers and receivers of care.

Equal Care Co-op is a multistakeholder Co-operative Society and has been supported by Co-operatives UK through The Hive, the Community Shares Booster Programme, the

UnFound Accelerator and a pilot financing programme with Open Society Foundations.

Seed: Phase 5 – growing

Thanks to the funding raised you've now been able to hire new staff with specific skills and roles.

The business model is working, and you have an operating platform. But you want to improve it, increase membership and trading revenue. The growth of the business will be an ongoing iterative process, so you might find yourself using the following funding options and processes multiple times.

Platform co-ops in this phase have raised between £400,000-600,000 per round.

Available funding

- You can also launch other rounds of time-bound share offers for specific growth goals. You will need to show clear progress between each round to attract new investment.
- You can ask your existing shareholders to re-invest their share interest and/or dividend payments into the co-op. It's an easy way for them to reinvest their money in the co-op while increasing their share capital. Depending on the scale of these payments, this can be a significant source of new capital.
- You could decide to operate on a federated model where the platform is a digital asset owned and governed by multiple organisations, each one with its own co-op structure and membership. The platform could be owned by a secondary co-op or, if not all member organisations are co-ops, a co-op consortium. Alternatively the platform could be managed in common ownership through a not for profit organisation.
- With a solid business plan and a good track record of achieving results, you should find it easier to access loans in this phase. Consider applying with loans from ethical, mutual and co-op banks who are more likely to understand and support your mission and therefore can provide you with better rates.
- You should still be looking for grant funding and sponsorship opportunities, but you should be for larger funds at this stage.

What you need before you start raising funds

Fundamental

- Constant revenue from the transactions occurring through your platform.
- A viable platform that is operational and able to deliver your services.
- A good track record of honouring financial agreements.
- New market research to identify the changes needed to your product and your new potential users.
- A new business plan that incorporates your learning up to now and defines the next phase of your business's growth.
- A new funding runway for the next phase of growth.

- Solid teams and processes for the different aspects of the business that can easily adapt to the growth of your business.
- Democratic processes that can operate effectively with growth.
- Good retention numbers of existing members and validation from your users of the value of your product or service.

Ideal

- A steady growth of users.
- Growing revenue from your existing services.
- Expressions of interest from potential investors.
- Ongoing relationships with grant funders and sponsors.

Case study: Open Food Network's federated model

Open Food Network is an open source platform that enables ethical food supply chains. It provides a digital shopfront for ethical food producers and distributors.

The Network is formed by three layers:

- The global commons layer, that looks after the software and shared common resources.
- The regional/country layer of entities that run instances of the platform in their regions (like Open Food Network UK).
- The local layer, which supports the co-producers that use the platform and develops tools and resources for the local context.

The global commons layer is not set up as a legal entity, instead its relationship with the regional instances is governed by a contractual agreement called a 'community pledge', which sets out the rights and responsibilities of regional instances when using the common resources (brand, platform, knowledge base).

Each regional layer is a not-for-profit platform co-op and an autonomous legal entity, whose members are the co-producers. Each regional entity is free to develop their own business model autonomously and are currently mainly financed via co-producer fees and grants. The aim, not yet reached, is for the global level to be financed entirely by regional entities, who should contribute 40% of their revenue to co-fund the common resources.

The UK entity, Open Food Network UK has up to now raised £750,000 from grant funders (Esmee Fairbairn Foundation and National Lottery Fund) of which 60% has been shared with the global commons network.

Open Food Network UK is a Company Limited by Guarantee with no share capital, and is set up as a Community Interest Company. Co-operatives UK supported Open Food Network UK via the UnFound accelerator.

Phase 6: Scaling

With conventional platform businesses, scaling rapidly seems to be a prerequisite for success.

This might be the case for platform co-ops too, but not necessarily for all. Some might be set up to cater for a niche market and user base, others might prefer to grow steadily at a slower less risky rate. However, some platform co-ops might only succeed if they are able to scale rapidly enough, for example to provide a valid enough alternative to an existing conventional platform business.

In this case, fundraising will need to go hand in hand with their ambition to scale.

Platform co-ops in this stage will be aiming to raise around £1-5 million.

There are very few examples of platform co-ops at this stage, so these are still uncharted territories. Co-ops can still use a combination of the methods mentioned up to now, but they could also explore new options like the ones listed below.

Available funding

- There are grants available for this scale of funding, but not for every sector or purpose. You might find tech related grants that want to push a certain agenda, or large grants available for ideas organisations radical solutions to the climate or health crisis. This is also a good moment to try to access government grants in the realm of innovation or high growth businesses.
- Now that you have a good track record of generating revenue you can consider accessing Revenue Based Finance.
- If you are able to guarantee future income you could also consider issuing community bonds.

What you need before you start raising funds

- A track record of good reliable revenue from your current products and services.
- Market research to prove there is untapped demand for your product or service.
- A new business plan to define the next phase of your business's growth.
- An updated funding runway for each step of the scaling process.
- Teams and processes that can manage rapid growth.
- Technology that is fit for rapid growth.
- Democractic processes that are able to adapt to rapid growth.

Ideal

- Good and ongoing relationships with potential investors

Case study: Savvy.coop raises Revenue Based Finance from VCs

Savvy.coop is a US-based patient led health data platform co-op. The co-op gives patients direct ways to share their experiences with health innovators and advocates so that they are fairly compensated for their contributions.

In April 2020 they raised their first round of financing in the form of Revenue Based Finance from Indie.vc becoming the first platform co-op to raise funding from VCs.

The Revenue Based Finance offered by Indie.vc came in the form of equity because the investment came with the caveat that should the co-op decide to issue shares, the funders would have a right to transform their investment into equity. However Indie.vc preferred not to be involved in the governance of the co-op, so Savvy.coop modified its governing document to include a specific investor class with shares that gave no voting rights.

The successful raise was the result of a few years of interaction with Indie.vc where the funders were able to learn more about the co-op and its founders and to build trust in the company. Before raising Revenue Based Funding, Savvy.coop has been supported by Start.coop, a US-based business support programme for co-ops with the aim to scale.

Conclusion and acknowledgements

This guide has been developed by Ludovica Rogers who has been monitoring the platform co-op ecosystem in the UK over the past two years as part of Co-operatives UK's UnFound programme.

The content of the guide builds on the extensive knowledge and experience of Co-operatives UK's Advice team and the Community Shares Unit, as well as the valuable contributions from people operating in adjacent fields of business support, in particular Greg Brodzky Director at Start.coop, Daisy Ford-Downes at The Venture Lab and Esme Verity, CEO at Atmos.

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We aim to update the guide regularly, so if you would like to provide feedback and/or suggest improvements, please email unfound@uk.coop.

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