

# Summary of Report by the Ministry of Economic Development, Innovation and Export in Québec:

## Survival Rate of Co-operatives in Québec, 2008 edition

### General Portrait of Co-operatives versus Other Business Models in Québec

- An earlier study conducted in 1999, demonstrated that the survival rate of co-operatives was **64%** after five years and **46%** after 10 years
- A new study conducted in 2008 reveals that little has changed, with **62%** of co-ops surviving after 5 years and **44%** after 10 years
- This statistic is relevant once compared to the survival rate of other forms of Québec business enterprise, which are **35%** after 5 years and **20%** after 10 years
- This is noteworthy in that it clearly demonstrates that Québec businesses operating under the co-operative model, survive approximately **24%** longer than their traditional business model counterparts, after 10 years of operation
- Another way of looking at how revealing the statistics are, is to consider that **six** of every 10 co-ops survive after 5 years of operation, as compared to slightly less than **four** of 10 other business enterprises
- Similarly, **four** of 10 co-ops survived after 10 years of operation, as compared to **two** of 10 other business enterprises
- One table reveals that the survival rate of co-operatives surpasses other business enterprises by an average of **25%**, during the first 10 years of operation
- The same table also demonstrates that the survival rate of co-ops, when compared to other business models, is particularly notable within the first 5 years of operation – After the first year alone, only **6.7%** of co-ops closed their doors, compared to **24.6%** of other businesses
- It is possible to conclude, therefore, that the survival rate of co-operatives significantly surpasses that of other business enterprises in Quebec, after 1, 5 and 10 years of operation

## 7 Main Factors Contributing to the Higher Survival Rate of Co-operatives

- Four factors indicate that the higher survival rate is specifically due to the inherent structure of the co-op model:
  1. The focus on member service as oppose to profit, which has an impact on business decisions
  2. The central role of the member, who is both investor and consumer in the co-op
  3. The democratic nature, the return of profits to members and the open governance structure of co-ops
  4. The presence of a group of promoters rooted within the communities
- Three factors also indicate a historical advantage, as well as the business environment of co-ops:
  1. Strong representation in economic sectors that fulfill basic human needs, including agriculture, forestry, residential services, funeral services and education
  2. The majority of co-ops operating in both regional and sectoral networks
  3. Support of primary and secondary organizations, which favours improved project management of start-ups and in the development and presence of financial and fiscal tools and resources, which are adapted to the co-op model

### Sector Specific Survival Rate of Co-ops after 5 Years of Operation

- Another table reveals that certain categories of co-operatives surpassed traditional business models after 5 years of operation, including: producer, consumer, solidarity, worker-shareholder and worker – In particular, producer and consumer co-ops have double the survival rate over other forms of business enterprise after 5 years of operation (i.e., **76.2%** and **75.6%** respectively, as compared to **35%**)
- Solidarity co-ops, which came into being after 1997, demonstrated a survival rate of **67.5%** after 5 years of operation, which is above average for all the co-operatives in the study, which stands at **62%**

## Survival Rate of Co-ops after 10 Years of Operation

- When comparing the 2008 study on the survival rate of co-ops after 10 years to a similar one conducted in 1999, both the producer and worker co-operatives survival rate increased (from **58% to 65%** for producer co-ops, and from **26% to 29%** for worker co-ops) – It is believed that this is largely the result of producer co-ops' use of agricultural materials, which have a higher survival rate in general, as well as the existence of forestry and paramedic worker co-ops
- When looking at those sectors that demonstrated a lower rate than in the previous study, including consumer and worker-shareholder co-ops, factors such as a strong consumer sector, as well as the difficulties inherent in the manufacturing sector in general, are named as contributors to the slightly lower survival rates as compared to the 1999 study
- The same 2008 study also reveals that co-operatives largely surpassed other types of business enterprise in the 10-year survival rate period

## Survival Rate of Co-operatives Compared to their Non-Co-operative Counterparts, across 14 Key Economic Sectors

- In eight of the 14 sectors studied, the survival rate of the co-operatives was more than double that of their other business counterparts (including the following sectors: housing, telecommunications, individual and social services, hotel/restaurant services, education, agriculture, forestry, transport, consulting, and tourism/leisure services)
- In several cases, the survival rate of the co-ops far surpassed that of other business enterprises, particularly in the following sectors: housing (**94.2** versus **22.4**); telecommunications (**87.5** versus **16.5**); hotel and restaurant services (**56.5** versus **13.5**); education (**55** versus **18.3**); agriculture (**51.9** versus **22**) and forestry (**50** versus **22**)
- The only areas where this was not the case, were in the construction, manufacturing and finance sectors
- Possible reasons offered for the lower rate of survival of co-ops operating in these three sectors include: (1) the existence of very big chains, which often make it very difficult for smaller co-ops to compete; (2) many of the manufacturing businesses in this study were also experiencing difficulties and were using the co-op model as a last recourse for survival - both agricultural and agri-food co-ops had strong survival rates in the sector, but most of these co-ops were in operation long before the period covered in this study; (3) the construction sector presents a challenge to the co-op model, as it is characterized by a many start-ups and closures, which generally restricts the development of construction co-ops

## Survival Rate of Co-ops from the 1<sup>st</sup> Year of Operation

- As the table reveals, the survival rate of co-operatives after their first year of operation, adds a new dimension to the notion of “survival rate,” by greatly contributing to the overall percentage of business enterprises that survive the first year of operations
- The same study also demonstrates that the survival rate of co-operatives nets on average, higher than other forms of business enterprise in the first ten years of operation - this is particularly evident in the first 5 years of operation
- It is important to keep in mind that co-operatives do not have the same dynamic and “bottom-line” mindset than other forms of business enterprise - they are created first and foremost to offer goods and services to their members, while making profits are secondary, however necessary, in order to assure their survival and continuous development
- The study notes that while co-operatives operate with a very different business structure from other business enterprises, they are still at risk of closure, decentralization and being bought out

## Starting Size does not Impact the Survival Rate of Co-operatives as much as that of Other Business Enterprises

- One study indicates that whether a co-op has less than or more than 5 employees, the survival rate does not vary greatly after 3 and 5 years of operation
- Among the co-ops employing less than 5 employees from start-up, the survival rate dropped from **73.9%** after 3 years, to **62.4%** after 5 years, and finally to **52.4%** after 10 years (a total of **21.5%** in 7 years)
- Similarly, among the other business enterprises employing less than 5 employees from start-up, the survival rate dropped from **47.1%** after 3 years, to **33.7%** after 5 years, and finally to **18.4%** after 10 years (a total of **28.7%** in 7 years)
- Among the co-ops employing 5 or more individuals from start-up, the survival rate dropped from **74.3%** after 3 years, to **63%** after 5 years, and finally to **38.2%** after 10 years (a total of **36.1%** in 7 years)
- Similarly, among the other business enterprises employing 5 or more individuals from start-up, the survival rate dropped from **60.2%** after 3 years, to **50.6%** after 5 years, and finally to **33.8%** after 10 years (a total of **26.4%** in 7 years)
- The table demonstrates that while the survival rate of other types of business enterprise diminished less in those employing 5 or more individuals than those of

the co-operatives, the overall rate of survival of the co-operatives significantly surpassed that of the other business models in each of the categories (i.e., after 3 years, 5 years and 10 years)

- Of particular note also, is that the survival rate of co-ops employing less than 5 employees was *higher* than those employing 5 or more individuals - another distinguishing factor highlighting the advantage of the co-operative model, as compared to other types of business enterprise

### **10 Year Survival Rate of Co-operatives Based on Region**

- The study indicates that the more urban the region (e.g., the cities of Montreal and Laval), the lower the survival rate of co-ops tends to be
- One reason provided for this distinction is the greater number of economic opportunities that exist in the urban centers - undoubtedly leading to more competition among business enterprises, and which would ultimately affect the survival rate of co-ops - It also notes that in certain regions, the fragile economy, and aging populations together play an important role in the durability of co-ops

### **Summary of Challenges Facing the Co-operative Sector and Recommendations for Better Understanding them**

- The results of the study highlight that challenges do exist for key players in co-op development, with respect to maintaining and/or augmenting their survival rates
- The study also reveals that strategies are needed for both intervening and following up on the sectors with the weakest survival rates, as well as for those just starting out and which are already in existence
- The study recommends that greater support is needed for co-operative projects located in larger urban regions in an effort to raise the survival rate
- The study recommends creating necessary fields of research which are dedicated to studying survival rates
- The study also recommends the need to examine the performance rate of co-operatives with respect to durability, with the ultimate goal of favoring the co-op model when it comes to starting-up new businesses

*Translated by the Ontario Co-operative Association, October 2008.*

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**The mission of the Ontario Co-operative Association is to lead, cultivate and connect the co-op sector.**