

**CWCF Webinar:
Learning from Failure Leads to Success**

“What is enough?”

A Founder of the Mondragon Co-op System

“Failure is the condiment that gives success its flavor.”

Truman Capote

March 29, 2017



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Proposed Agenda

1. Welcome and List Participants
2. Presentation
3. Discussion & Burning Questions?
4. Adjourn
5. Roundtable Evaluation

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Presentation

1. Success & Failure
2. Worker Co-ops vs. Private Business
3. Reasons for Co-op Failure
4. Learning from Failure
5. Emotions & Fallout
6. Summary



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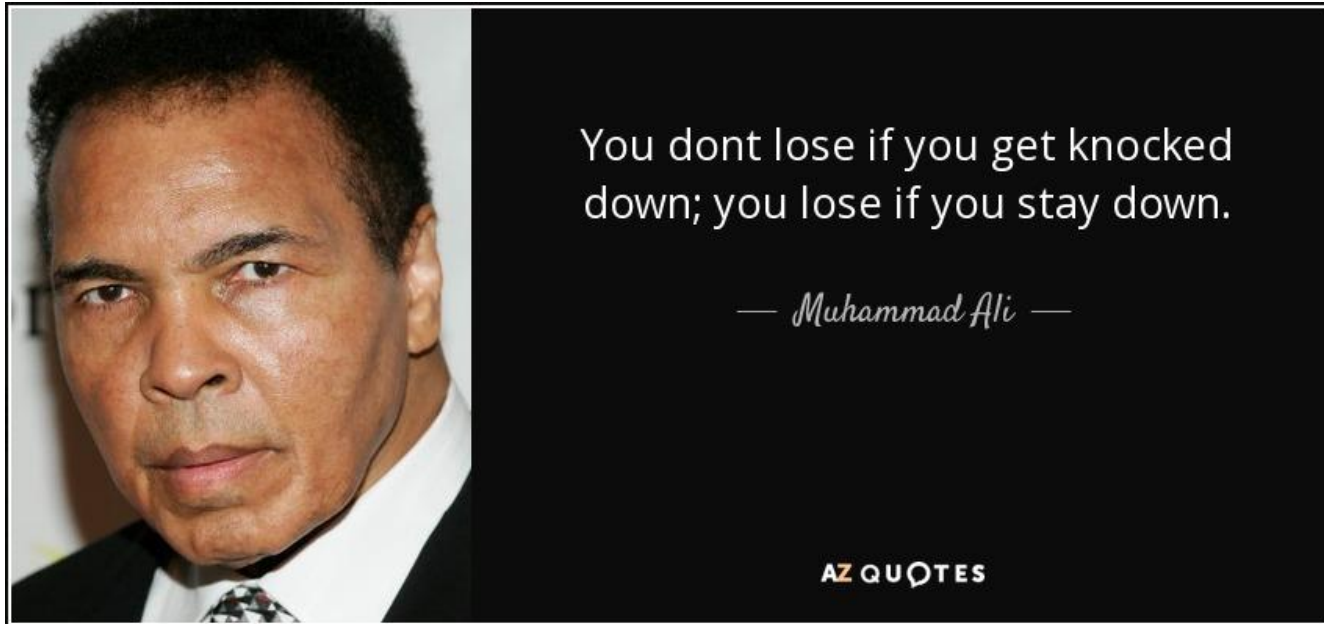
Success and Failure

- What does success mean?
- What does failure mean?

- What does business success mean?
- What does worker co-op success mean?

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Success and Failure



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Co-ops vs. Private Business

1. Co-ops have a higher survival rate (2:1)
2. Capitalist culture & regulatory environment favour private business & “hero” entrepreneurs
3. Co-ops are judged more harshly
4. Co-ops have more than financial objectives
5. Democratic governance can be a strength or a weakness
6. Co-ops are also businesses
7. Financial health is required to meet social & ecological objectives

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Worker Co-op Success

- Financial viability
- Tri-bottom line
- Share the wealth
- Meaningful job creation
- Labour rules capital
- Democratic engagement
- High proportion of members
- Job security & retirement

Private Business Success

- Financial viability
- Maximize profits
- Hoard the wealth
- Minimum labour standards
- Capital rules labour
- Individual job satisfaction
- Serial entrepreneurship
- Succession plan



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Worker Co-op Failure

- Bankruptcy
- Low wages & no benefits
- De-mutualization
- Undemocratic governance
- Job loss
- Individual self-interest

Private Business Failure

- Bankruptcy
- Not meeting ROI target
- Criminal or unethical behaviour
- Unionization
- No succession plan

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Harvard Business Review:

Reasons for Business Failure

1. Poor marketing
2. Cash flow problems
3. Poor business planning
4. Lack of finance
5. Failure to embrace new technologies & developments
6. Poor choice of location
7. Poor management
8. Poor human resource relations
9. Lack of clear objectives



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Reasons for Co-op Failure *(the same as all businesses)*

1. Financial: *39% profitable; 30% B/E; 30% lose \$*
 - a) Cash flow
 - b) Inadequate capital; too much debt
 - c) Cost overruns & inventory
 - d) Growing too fast
 - e) Financial control systems
2. Markets & Competition & Location
3. Management & Leadership
4. Human Relations
5. Entrepreneurship (risk taking)



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Cash Flow

- A symptom & a cause of failure
- Needs to be an assigned responsibility
- Cash flow forecast – monthly & weekly budget
- Managing expenses
- Inventory (purchasing & turns)
- Gross margin and pricing
- Line of credit
- Member investment



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Budgets & Variance Analysis

Monthly and Annual

This is the single most important thing to do
for financial control in your co-operative.

Variance Analysis	Dollar Values				% Benchmarks (of sales)			
	Actual	Budget	Variance		Actual	Budget	Variance	
Sales Revenue	689,000	650,000	39,000	F	100.0%	100.0%	6.0%	F
Cost of Goods Sold	478,855	442,000	36,855	U	69.5%	68.0%	1.5%	U
Gross Margin	210,145	208,000	2,145	F	30.5%	32.0%	-1.5%	U
Expenses	207,389	200,200	7,189	U	30.1%	30.8%	-0.7%	F
Net Income	2,756	7,800	-5,044	U	0.4%	1.2%	-0.8%	U

How many of you do this?

Co-operative Sustainability Scorecard

Economic Measures



Aron Theatre Co-operative Inc.			
Sustainability Scorecard			
Triple Bottom Line Summary		Page 1	
Economic Measures		12-Mar-17	13-May-14
Total Number of Minimum Recommended Practices Identified		10	10
Total Number of Minimum Recommended Practices Used		10	10
Total Possible Score If All Practices Were Fully Used		50	50
Total Score Based on 1 to 5 Ranking of "Current Level of Use"		48	39
Percentage Economic Score		96%	78%
Main Areas for Improvement (in order of priority):			
<i>These are chosen by identifying the #1 and #2 ranked priorities that received the lowest "Use Level" rank.</i>			
2	We use a participatory budgeting process each year, making sure those who are responsible for meeting financial targets are involved in setting them		
6	We have assigned responsibility to collect accounts receivable in a timely manner, and we actively enforce our credit policy and terms (with discretion)		
9	Our co-operative is adequately capitalized by our members and retained earnings		

Co-operative Sustainability Scorecard

Economic Measures

Economic Measures		Page 2	
Financial Ratios - Ratios in <i>italics</i> may not apply to your business		Our Ratio	Benchmark
	Liquidity (Ability to pay current debts as they become due)		
1	Current Ratio - Divide total current assets by total current liabilities	4.5	2.0
2	Quick Ratio - Cash (+GICs) + Accounts Receivable (A/R)/ Current Liabilities	4.1	1.8
	Solvency (Ability to retire long-term maturing debt)		
1	Debt to Equity - Divide long-term debt by members' equity/loans	1.5	1.0
2	Total Liabilities as % of Assets - Divide total liabilities by total assets (include depreciation)	58%	40%
3	Equity as % of Assets - Divide member equity/loans by total assets	40%	60%
	Efficiency (Are financial and human resources being used efficiently)	Actual	Budget
1	Sales - actual compared to budget	\$176,118	\$169,350
2	Gross Margin as a percentage of Sales - compared to budget	57%	56%
3	Labour Expense as % of Sales - compared to budget	25%	25%
4	<i>Sales per Square Foot - applies to retail or wholesale businesses</i>		
5	Sales per Person Hour	\$3,453	\$3,321
6	Sales to Total Assets	0.5	0.5
7	<i>Inventory Turnover - applies to retail or wholesale businesses that sell products</i>	6.3	5.4
	Profitability (Ability to earn a sufficient return on invested capital)		
1	Net Income as % of Sales	5.7%	6.4%
2	Return on Equity (Member shares or loans) - after income taxes	39.2%	18.5%
3	Return on Investment - after income taxes	15.9%	5.7%

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Social

- Co-operative Principles & Values
- Democratic Governance
- Exceed Labour Standards
- Ongoing Member Education
- Community



Co-operative Sustainability Scorecard

Social Measures

Social Measures		12-Mar-17	13-May-14
	Total Number of Minimum Recommended Practices Identified	11	11
	Total Number of Minimum Recommended Practices Used	11	11
	Total Possible Score If All Practices Were Fully Used	55	55
	Total Score Based on 1 to 5 Ranking of "Current Level of Use"	32	35
	Percentage Social Score	58%	64%
Main Areas for Improvement (in order of priority):			
<i>These are chosen by identifying the #1 and #2 ranked priorities that received the lowest "Use Level" rank.</i>			
1	Our Board, Staff and Members have reviewed and understand the link between the International Co-op Principles and Values with Sustainability Principles		
3	Board and Staff actively participate in filling out our Sustainability Scorecard on an annual basis - performing the necessary research, having open discussions, and building consensus		
5	We budget financial and human resources each year to reach out to our membership to ensure we understand their concerns and encourage their patronage of the co-op, their participation on committees, and AGM attendance		

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Ecological

- Water conservation
- Energy conservation
- Greenhouse Gas Emissions
- Waste reduction
- Habitat restoration
- Education



Co-operative Sustainability Scorecard

Ecological Measures

Ecological Measures			12-Mar-17	13-May-14
	Total Number of Minimum Recommended Practices Identified		10	10
	Total Number of Minimum Recommended Practices Used		10	10
	Total Possible Score If All Practices Were Fully Used		50	50
	Total Score Based on 1 to 5 Ranking of "Current Level of Use"		23	27
	Percentage Environmental Score		46%	54%
Main Areas for Improvement (in order of priority):				
<i>These are chosen by identifying the #1 and #2 ranked priorities that received the lowest "Use Level" rank.</i>				
1	Our Board, Staff and Members have reviewed and understand how the human economy is embedded in human society, and that the "Great Economy" is the entire web of life (all the other creatures with whom humans share the world)			
2	Our co-operative sets environmental performance and efficiency goals and we measure our progress, making adjustments and improvements as necessary			
6	We educate our members, staff, suppliers and customers regarding sustainability issues, including climate change, biodiversity, and habitat destruction			
			12-Mar-17	13-May-14
	Triple Bottom Line/Sustainability Score:		67%	65%

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Emotions & Fallout

- Fear
- Shame
- Isolation
- Judgement
- Compassion
- Sharing

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Summary

- Define success
- Measure success
- Be honest & open
- Ask for help
- Share learning

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Burning Questions?

&

Discussion



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Roundtable Evaluation

Thank You!
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