



SME Profile: Financing and Growth of Co-operatives in Canada, 2017

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Summary

This report summarizes findings from the 2017 [Survey on Financing and Growth of Small and Medium-sized Enterprises](#) to offer a snapshot of the financing and growth activities of co-operatives corporations¹ in Canada.

In Canada, there is a well established co-operative² business sector, yet there has been little data to help understand the financing, growth, procurement, innovation and exports of co-operatives, as well as the obstacles they face. The 2017 *Survey on Financing and Growth of Small and Medium-sized Enterprises* is an effort by Innovation, Science and Economic Development Canada to provide more concrete data and analysis on co-operatives, and this profile highlights key data points to better understand how they operate in and contribute to the Canadian economy.³

As outlined in this profile, the survey data returned some interesting financing and growth trends of the co-operative sector in Canada. For instance, the co-operatives that responded to the survey demonstrated this business sector seeks more external financing than SMEs and generally have higher financing approval rates. Debt financing is the most prevalent form of capital that co-operatives are seeking, mostly in the form of term loans used for working capital.

Co-operatives have high growth projections, including intentions to expand to new markets, over the next three years and are more likely than SMEs to develop a new innovation. Co-operatives also have diverse ownership, with a strong percentage of the businesses owned by women and Indigenous Peoples, and are very mature with an average business age of 43.7 years.

The following sections of this profile provides more details of how co-operatives are accessing financing, growing and innovating across Canada.

¹ To learn more about what a co-operative is and how it compares to other business models, please visit the [Information Guide on Co-operatives](#).

² It is important to note that the co-operatives surveyed were non-financial co-operatives incorporated under a specific provincial, territorial or federal co-operative statute. This does not include financial co-operatives, such as credit unions and *caisses populaires*.

³ Co-operatives were also included for the first time in the 2014 iteration of the *Survey on Financing and Growth of Small and Medium-sized Enterprises*.

Financing

More co-operatives request external financing than SMEs



In 2017, 64.9% of all co-operatives requested external financing for their businesses, compared to 47.1% of all SMEs. Overall, co-operatives were authorized for over \$389 million in 2017 when adding all the financing types together.

In 2017, 64.4% of co-operatives that received debt financing received it from credit unions and *caisses populaires*, 27.3% from domestic chartered banks, and 20.2% from a government institution.⁴ By comparison, 69.9% of the SMEs that made a request for external financing received financing from domestic chartered banks, 8.7% from government, and 23.6% from credit unions.



Co-operatives had generally higher financing approval rates than SMEs, with an approval rate of 95.0% for debt financing, 100% for trade credit,⁵ and 84.1% for government financing. By comparison, SMEs' approval rates for these financing types were 89.2%, 98.9% and 76.6%, respectively.

Both co-operatives and SMEs primarily rely on debt financing and trade credit



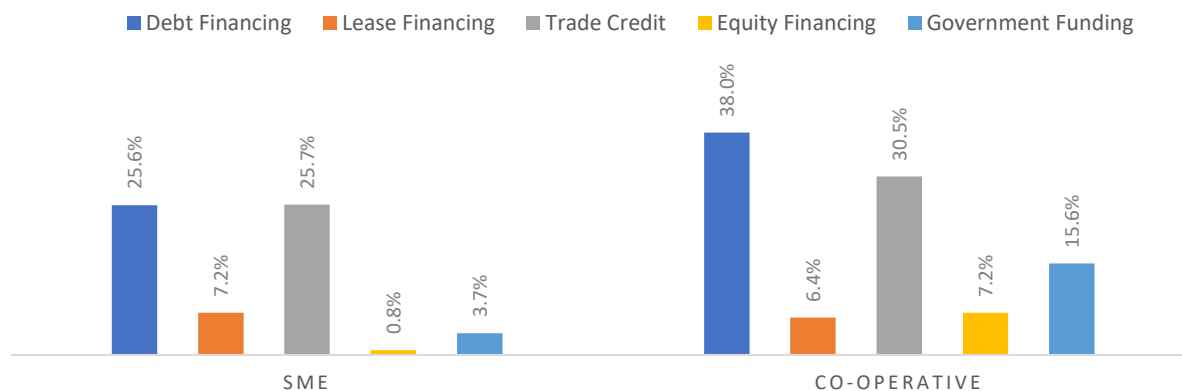
More co-operatives (38.1%) relied on debt financing (non-residential mortgages, line of credits, term loans and credit card) than SMEs (25.6%). Co-operatives and SMEs relied on trade credit and lease financing in similar numbers, but co-operatives relied more heavily on equity financing⁶ and government funding than SMEs.

⁴ A Government institution is for example, Business Development Bank of Canada, Export Development Canada, and Farm Credit Canada.

⁵ Trade credit from suppliers (A trade credit involves making a new request to purchase any materials, equipment or inventory on credit from a supplier. Trade credit debt is reported as "accounts payable" in financial statements.)

⁶ Co-operatives can facilitate equity investment through membership shares (usually at par value) and a class of non-voting investment shares that are used to raise capital for business growth.

FIGURE 1: FINANCING TYPE



In 2017, co-operatives secured over \$262 million in debt financing. Co-operatives were getting the largest amount of debt financing from term loans (\$118.6 million), followed by lines of credit (\$87.7 million). The majority (55.8%) of co-operatives' intended use of this debt financing was for working capital.

Growth and Innovation

Co-operatives expect to grow and expand sales



In the last three years, 57.6% of co-operatives experienced growth between 1 to 10%, and 7.5% of co-operatives experienced growth between 11 and 20%. Moreover, co-operatives seem to have confidence in the road ahead as, over the next three years, 63.4% of the co-operatives expected to grow between 1 and 10%, and 9.9% of co-operatives expected to grow between 11 and 20% a year.

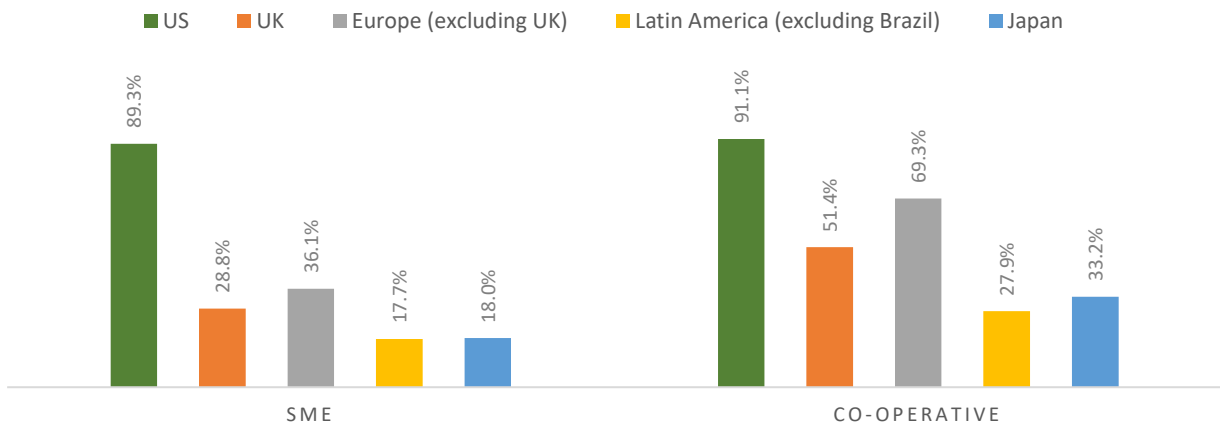


The majority of co-operatives, nearly 88%, simply indicated that the federal government was not a potential client. Although there is no further questions that explored this element, it is likely because these co-operatives are focused on meeting the needs of their members, which are often also their main customers and clients (e.g., retail co-operatives). Three percent of co-operatives and 3.3% of SMEs indicated making 1 to 10% of all their sales through federal government procurement. Only 0.5% of co-operatives and 0.8% of SMEs indicated making 11% to 50% of their sales through federal government procurement. Few co-operatives were unaware of contracting opportunities (3.0%) or indicated that the application process was too complicated (3.9%).



Forty-six percent of SMEs and 48.9% of co-operatives had intentions to expand sales to new markets over the next 3 years. While the US is the primary market that both SMEs and co-operatives expected to expand into, co-operatives particularly targeted the UK, Europe, Japan and Latin America.

FIGURE 2: INTENTION TO EXPAND BY DESTINATION



Co-operatives are drivers in innovation



Co-operatives are innovative businesses. Forty-two percent of co-operatives had developed at least one type of innovation, while 31% of SMEs had developed at least one. In addition, 25% of co-operatives had developed a new or significantly improved good or product, compared to 19% of the SMEs surveyed.

Co-operatives are also more likely to adopt a new technology than traditional SMEs. Fifty-three percent of co-operatives adopted at least one new technology over the last three years compared to 46.3% of SMEs. Data analytics (29.3%) and cloud computing (25.4%) were the technologies that co-operatives were most likely to adopt.

Co-operatives face some obstacles to growth



A significant proportion of co-operatives indicated that increasing competition (74.5%) and rising cost of inputs (70.1%) were obstacles to growth. Over 60% of all co-operatives pointed out that recruiting and retaining skilled employees (64.5%) and fluctuations in consumer demand (64.4%) were obstacles to growth.

In contrast, over 40% of co-operatives indicated that shortage of labour (46.0%), maintaining cash flow (40.8%), and the corporate tax rate (48.1%) were not obstacles to growth; 50.6% indicated that government regulations were not an obstacle to growth; and, 63.3% indicated that obtaining financing was not an obstacle to growth.

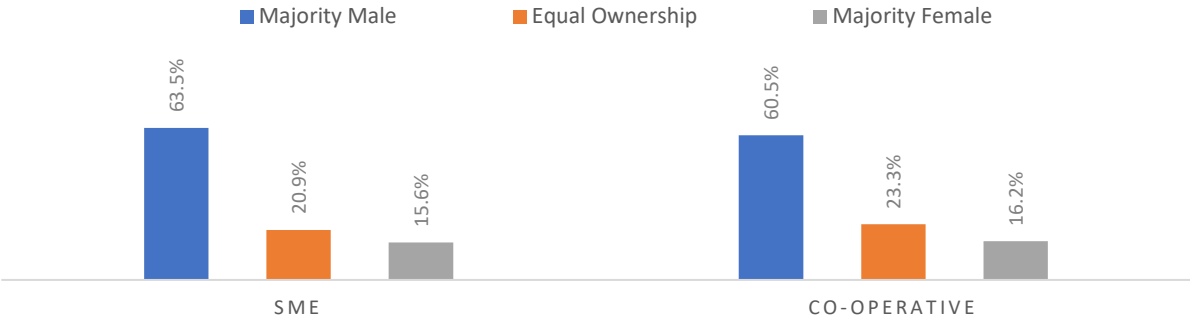
Business Characteristics

Co-operatives are diverse businesses with strong female, aboriginal, and francophone presence



Co-operatives and SMEs have similar proportions of businesses that are majority female owned businesses (around 15%), majority male owned businesses (around 60%), and businesses with equal female and male ownership (around 20%). However, over 50% of SMEs, regardless of size, have no female ownership. In contrast, only 18.1% of co-operatives have no female ownership.

FIGURE 3: OWNERSHIP BASE



In 2017, 6.8% of co-operatives were majority aboriginal owned businesses, compared to 1.4% of all SMEs. As well, 47% of the co-operatives surveyed indicated that the primary decision maker's mother tongue was French, compared to 21% for all SMEs.⁷

Co-operatives tend to be more mature businesses, but fewer are created



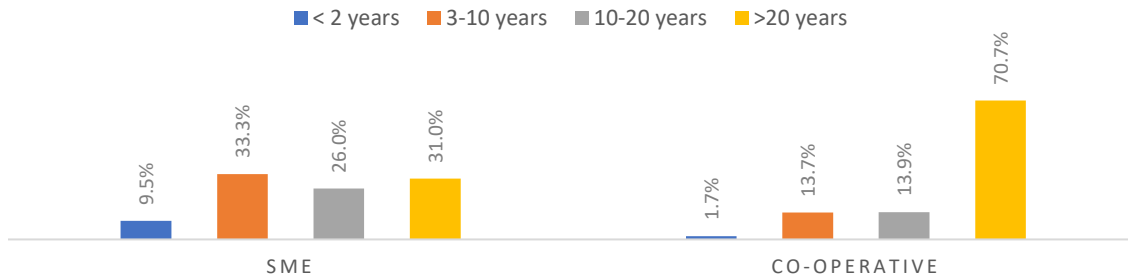
With nearly 71.0% of all co-operatives over 20 years old, the survey shows that co-operatives are stable and long-term businesses. The corresponding number for SMEs is 31.3% that were 20 years or older. In addition, the average age of co-operatives was 43.5 years compared to 16.7 years for all SMEs.

Co-operatives may well remain anchored in the Canadian landscape as 91% of the co-operatives surveyed indicated they had no intention to sell, transfer, or close their business in the next five years, as opposed to 70.7% of SMEs that have no intention to sell, transfer or close.

⁷ Although the data is weighted, the strong francophone representation can be partially explained by the fact that Quebec has the largest proportion of incorporated co-operatives in Canada.

However, the survey also shows fewer co-operatives were created than SMEs. As little as 1.7% of the co-operatives surveyed had been in business for under 2 years, compared to 9.5% for SMEs. In addition, only 26.6% of co-operatives were between 3 and 20 years old, when nearly 60.0% of all SMEs were in that age tranche.

FIGURE 4: BUSINESS AGE



Data & Methodology

The data in this profile is collected from the [2017 Survey on the Financing and Growth of Small and Medium-sized Enterprises](#). The survey focused on SMEs that generated over \$30,000 in annual gross revenue and that employed between 1 and 499 employees and a special sample frame of co-operatives were included. The total sample frame was 617 co-operatives, of which 399 responded to the questionnaire, resulting in a 78% response rate compared to a 59% response rate for all SMEs. For more information on the survey questionnaire and methodology, please click [here](#).

A co-operative must be incorporated under specific provincial, territorial or federal co-operative corporate Acts. Co-operatives have many similarities and differences to regular corporations. In order to better understand these differences, please visit the [how is a co-operative different from other business forms](#) as well as the [Information Guide on Co-operatives](#).

Please note, co-operatives were also included in the [2014 Survey on the Financing and Growth of Small and Medium-Sized Enterprises](#). You can see a complete 2014 profile [here](#).