Co-operative Auto Network

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Is a Car Sharing Organization best as a For-Profit? Non-Profit? Co-operative?

Good question. One that we struggled with while creating the Co-operative Auto Network (CAN). So why did we go co-operative? Here was the thinking. Incorporation was the first step in a long road and getting off to the right start for our group is going to get us there faster. Initially, we discussed what we hoped to achieve from the creation of CAN. Then we looked into the various structures. It's smart to look into what limitations may be imposed by the governing bodies in your province, state or country. For example, in Colorado, co-operatives can only legally be food producers. Building from that framework we considered each designation in all of its practical and ideological details, then took a look at what our goals were and really thought about which corporate form is best for our car sharing organization (CSO). No matter where you plan on incorporating, there are basic assumptions you can make about each form. We were aware however, that it would be a mistake to assume the labels set the limits to its designation. For-profit corps can do a lot of public/good works while sometimes co-operatives can be less than co-operative and non-profits may have trouble doing away with the profits they make!

As a thumbnail; for-profit corporations are those owned by a specific individual or stakeholders whom have invested in the enterprise and intend to reap rewards for the risks. They may or may not consume the product or service they have invested in, and may have high to nil ideological aspirations for their investment. For-profit corps are permitted to hold assets and raise capital in a variety of ways both public and private. For start up organizations with individuals with no previous financial history, finding bank financing may be a challenge but ought not to be impossible.

Inversely, non-profits tend to be held by a society that performs public education and/or charitable works. While they can generate income from products and services, they often rely on sponsorships, subscriptions, grants or donations. They are limited in their ability to hold assets from fiscal year to year. Having a society through which the CSO applies for grants is an effective use of this corporate form.

Finally, co-operatives are corporation that tend to be wholly-owned by its subscribers, or members. Members buy shares in the company in order to access the products and services and, depending on the rules of incorporation, may get dividends based on the profits generated. Co-operatives guiding principle is 'one member - one vote'. They are ruled by a democratically-elected Board of Directors, positions each member may run for election. Like typical for-profit corps, co-ops can hold their assets from year to year. Yet they are limited in their ability to raise capital as their shares can not be publicly traded.

A very real negative to co-operative incorporation is finding start-up funds. Access to financing may be a challenge as well as there is no person or corporation ultimately responsible for the company's debts. Many CSO's launch as co-ops though, so this is not a huge hurdle. Frankly, CAN had VanCity Credit Union (a co-op and the largest credit union in terms of dollars in Canada) and the Co-operator's (one of the largest insurance groups in Canada) in support of us - especially as a co-operative. So getting to start up as a co-up wasn't too hard, but getting the first loans for cars was tough!

Another challenge for co-operative incorporation is image. Co-ops are often burdened with a somewhat negative perception associated with well - co-ops. Co-operatives are a huge part of financial pie in Canada, but there is little recognition of this. If anything, the general public may still harbour a powerful aversion to co-ops. While we may be past the point were some folks may label us 'commies' co-ops can still be perceived as a bunch of hippies and farmers - not quite the thing for your average yuppie. This may actually mean we can be removed from making real change in the mainstream. At least initially, that is!

Ideological considerations are those that cause the most ire among organizers but one can assume that we all want to reduce car use and ownership while improving the economic situation of those served. With this as the primary goal there is no real difference between the corporate forms. Still, one has to consider the question, "Is achieving profit the focus or achieving positive climate change?" For us, the question of focus was decisive.

In the for-profit world, investors may limit or reduce their commitment to an organization that is not likely to turn even a 10% return within 5 years. CSO's are expensive to run and difficult to manage. And are faced with the further challenge of introducing a new way to access vehicles in an auto-addicted world. Communication and education tasks can seem insurmountable at times.

This means that CSO's are not likely to ever (?!?) make large profits and getting a CSO started may present too much of a hassle for those wishing to make money. Worse still, a fledgling organization may be forced to fold before it becomes self-sustaining simply because the investors are not willing to assume additional risks. Labeled a failure, this attempt will limit the chances of another start-up. I think the lack of 'fast profits' will also mean that large corporations with very deep pockets will not lead the way in creating CSO's, although they'll catch on fast once us pioneers stand to make a buck. Sad but true.

I am certain that 'pro for-profit' folks are less interested in making the big bucks and more interested in making a living while making a difference. The issue for most in this camp is control. What they don't want to see happen is to work diligently (heart-breakingly...) for months and years to set up this business, then hand control and power over to another group (Board) with perhaps little experience and limited expertise. Or worse still, in very rare instances a rogue Board decides they can run things more efficiently without the initiator(s) and oust them. This is both terrifying and possible in a co-operative structure.
Of course, for-profit Boards can be difficult as well but not as threatening as each director tends to be there for the same reason. Recently though, I got an e-mail from someone looking to join a for-profit CSO group and he was worried about the lack of accountability and transparency in the financial matters. His concerns are valid. In a co-operative elected Boards can be removed and co-operatives must be audited every year. Not so with for-profits. If a user of a for-profit CSO is unhappy with the service or finances they have little recourse in a for-profit except to leave. This is not terribly empowering and can detract from the mission of most CSO's.

Another issue for the for-profit folks that I'm not sure how they get their heads around is the cash deposit of the user. How can they legally use that money to further the organization's cash flow or investment. Where I live, I think it's not possible but there could be specific wording that allows it. This is problem is a non-issue for co-operatives though. The shares are investments in the co-operative and their use is stipulated in the Rules of Incorporation.

Finally - for me anyhow - a challenge for the for-profit corporate structure is one of definition. As an English major, (hey! at least I state my bias!), how can a car SHARING organization be 'sharing' if one person or group owns the car and lets others use it for a fee. For free - now that's sharing! But when cash is exchanged I believe that is 'renting'. 'Renting' is the "R-word" for the Co-operative Auto Network!. We work hard to stress that we co-own as opposed to mutually-use. We consider the shift away from thinking in terms of sole ownership and/or single-user status typical to most markets is the cornerstone to the environmental goals we strive for. To that end, we interrupt members when they say 'rent' and make them re-state their wishes is terms of 'using', 'reserving' or ... whatever. It's done as a joke but we're quite serious.

We see ourselves as more than just car sharers. We feel we're chipping away at that consumer-based indoctrination that seems to require everyone on the block to have their own lawnmower! Maybe by getting folks to see they can share cars they will see they can share other items as well!

So - for-profit, non-profit or co-op? Well really a mix would be great and embrace all the positives while reducing the negatives. The co-operative membership owns the cars and has an iron-clad contract with a for-profit management company to provide adminstration, billing, maintenance and advertsing. Meanwhile a non-profit group seeks grant financing to do the environmental out-reach work (communications) and education of what is involved in car sharing. It's too late for CAN to be set up this way but... hopefully others can benefit from our mis-steps!