Platform co-operatives – solving the capital conundrum

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Executive summary

This report is about platform co-operatives: what they are, why we need them, and what is needed for them to grow and flourish in the future.

A platform co-op is a digital platform that is designed to provide a service or sell a product – that is collectively owned and governed by the people who depend on and participate in it (Sutton 2016). They offer a positive alternative to platform capitalism – as characterised by Facebook, Amazon, Google, Uber, Airbnb – which has been criticised for extractive and exploitative practices.

This report outlines a number of conditions necessary for the growth of platform co-operatives, but the most crucial of these is access to the capital investment they need to scale. We propose an investment model based on community shares as a means of doing this.

The traditional co-operative business practice is a social innovation that began in the UK in the 19th century – it has since grown into a global movement that offers a more equitable alternative to shareholder-owned businesses. Collaborative technology platforms are now making it possible for co-operatives to operate in new ways and at scale, with great potential for further expansion.

Today, more and more people manage their work and resources through digital platforms that offer boundless flexibility and independence. However, they can also be exploitative and monopolistic, owned largely by a small number of Big Tech corporations which enable the precarious gig economy, exacerbate systemic inequalities and facilitate data surveillance and data capture. The dominance of this form of platform capitalism, as well as the network effects created, means it is hard to see anything beyond this prevailing model. However, this must be challenged because other futures are possible – platform co-operativism is a network of trading businesses that might look and feel like the established Big Tech platforms, but are democratically controlled and collectively owned. They are a route to a fairer, more inclusive outcome, that generates tangible advantages for workers and consumers alike.

Over the last six months, Nesta and Co-operatives UK have convened experts and pioneering practitioners to explore both the opportunities and difficulties for platform co-operatives in the UK. This paper sets out the potential ways forward to show how the platform co-operative model can thrive in the digital economy. Crucially, it seeks to identify the potential competitive advantage platform co-operatives can have over corporate business methods. It also formulates a typology which defines different variants in the sector, depending on the distribution and status of stakeholders that comprise their membership. The typology includes:

- Multi-stakeholder and community platforms
- Producer platforms
- Consortia and worker platforms
- Data consortia platforms

Alongside this, the challenges and limitations of platform co-operatives are examined. Most significantly, at present the sector is struggling to raise the substantial amounts of capital required to start and grow at scale. The key to any future success lies in solving this crucial part of the problem – the capital conundrum. The report suggests an answer that draws its inspiration from community shares, equity that is unique to co-operative and community benefit organisations.

Other recommendations and future steps are also laid out. Among these are:

- **A call for the establishment of a platform co-op fund** – an initial £1m patient seed fund, informed by the community shares model.
- **The development of accelerator activities** for tailored support and advice to emerging platform co-ops to accompany any funding offer.
- **A dedicated campaign to raise awareness of the platform co-op model,** focused on the tech sector.
- **Further investigation** into how such capital models would interface with existing mission-oriented, purpose-driven tech businesses that may consider adopting a co-operative structure.

It is vital for there to be a greater diversity of business models used within the platform economy, creating fair and effective antidotes to excessive dominance of platform capitalism and the titans of Big Tech. Co-operatively owned and operated platforms can be just that alternative with long-term social and economic benefits.

Why we need platform co-operatives in the digital economy

More and more people are organising their work and resources through digital platforms. The marketplace for these is dominated by a small number of large corporations: be it Uber drivers, freelancers on TaskRabbit or Amazon's Mechanical Turk marketplace, home rentals on Airbnb or food deliveries using Deliveroo.

These digital platforms offer people unprecedented flexibility and independence. The barriers to entry to becoming a taxi driver, a holiday apartment landlord, or freelance worker are now incredibly low, and it's never been easier to be a consumer on the other side of these markets. But while these positives are acknowledged, large platform companies have also been criticised for being exploitative, monopolistic and extractivist.

As a result, this system has been described as platform capitalism. In this system a large number of consumers and vendors generate profits which accrue to a comparatively small number of people and global organisations such as Amazon, Facebook and Google. Ordinary users who rely on these platforms typically find they have little control over their personal data and have no say about how they are run. It has led to the formation of monopolies that encourage financial extraction and the monetisation of personal data.

Trebor Scholz of the Platform Co-operativism Consortium based at the New School, New York identifies three major impacts of platform capitalism in his essay *Own This! A portfolio of platform co-operatiusm, in progress* (2018):

1. **Broken social contract:** the extractive short-term financial model used by leading platforms is undermining the social contract between workers and businesses.

2. **Exacerbated systemic inequalities:** platforms, through the growth of the gig economy, are undermining workers' rights, which is magnifying systemic racial and gender inequalities.

3. **Surveillance capitalism:** Big Tech companies collect vast amounts of data on users and offer little transparency on what happens to this data – leading to concerns about privacy, online security and the monetisation of personal data.

There is of course a whole series of related debates and propositions that are seeking to address the adverse impacts of platform capitalism. As such, the platform co-op model should be recognised in the context of initiatives such as 'tech for good' and 'responsible tech' which generally seek to make technology businesses more aware of the social impact of their ventures. Similarly schemes such as BCorps are promoting a more accountable form of social responsibility within enterprise as a whole.

However, platform co-operativism crucially differs from the majority of these discussions in that it centres on the ownership and governance of the enterprise rather than its practices.

The origins of platform co-operatives

Platform co-operatives combine the principles of co-operativism with the opportunities of platform technologies, which can connect individuals directly with little need for a middleman.

There is a long, rich line of co-operative action in enterprise and trading throughout the UK's history. In the 1840s, the Rochdale Pioneers were among those who formalised co-operatives as a business practice and many such organisations that subsequently emerged are still trading today: they have proved to be resilient and able to adapt to social and technological change. Platform co-operatives are a continuation of this story.

Central to the principles of co-operative businesses is the belief in a fairer, more just form of enterprise, where all the stakeholders can work together for the common good. These are businesses where the ownership rests with members of the enterprise, rather than with more distant investors. Co-operatives, then, are radically distinct from corporations: the overriding incentive for investor-owned businesses is to maximise financial returns to shareholders. In co-operatives, the greater good of members is central – this means simply pursuing profit at all costs isn't the goal, instead priority is often given to other aims such as fairness, member involvement in decision-making, equitable pay, and long-term planning.

The co-operative advantage

This fundamental difference enables co-operative businesses to generate long term, tangible economic and social advantages:

- Co-operatives have been shown to be **more productive than conventional businesses**, often due to workers being more engaged with their organisation, with stronger levels of trust and more effective knowledge sharing. (Perotin 2016)

- Figures show **co-operative start-ups are almost twice as likely to survive** their first five years when compared to traditional companies. (Co-operatives UK 2018)

- Co-operatives have been shown to have **lower levels of staff turnover, lower pay inequality, and lower absenteeism rates** compared with other businesses. (Mayo 2015)

Types of co-operative business

There are five broad types of co-operative business, distinguished by the different membership types they offer.

Membership Type	Example
Worker and freelance co-operatives – controlling majority sits with the workers of the enterprise.	Suma is the UK's largest worker co-operative. It produces vegetarian, organic, ethically-sourced products.
Consumer co-operatives – membership is based on the customers of the co-op.	The Wine Society is a co-operative organisation specialising in supplying fine wines, owned by its customers.
Consortia co-operatives – independent producers, usually small businesses, form a co-operative to benefit from collective organising, such as finance or insurance services.	Thames Valley Farmers' Market Co-operative manages and promotes farmers' market in towns across Berkshire, Oxfordshire and South Buckinghamshire, enabling farmers and small producers to sell their produce directly to local consumers.
Community co-operatives – members align based on a shared 'community identity', which can be associated with a place or an interest.	Lewes Football Club was one of the first entirely fan-owned clubs in the UK. Supporters can invest in the organisation on the basis of one member, one vote.
Multi-stakeholder co-operatives – there is a hybrid of stakeholder interests which leads to creating specific roles and rights for the various types of members.	The New Internationalist Magazine is a multi-stakeholder co-operative, owned both by its workers and 3,500 consumer-investor-members.

What we mean by platform co-operatives

"A platform co-op is a digital platform that is designed to provide a service or sell a product, and that is collectively owned and governed by the people who depend on and participate in it." (Sutton 2016)

This works as a tight definition of platform co-operatives but can miss some of the nuances of the different models which fall under the broad umbrella of platform co-operativism. An alternative way of defining platform co-operatives is through **four boundary features:**

1. **Platform co-operatives are inspired by open source movements but are not defined by them:** they will often take an open approach but they are defined by their adherence to co-operative rather than open principles.

2. **They are more than simply digital tools for participation/improving governance:** Although such tools will likely form part of any platform with democratic features.

3. **They are more than co-operatives using digital channels/offering digital services:** Platform co-operatives refer to online platforms where people come together, in which the platform is driving a business and/or creating significant dependencies.

4. **They are more than technologies that exclusively empower workers – i.e. worker tech:** Platform co-operatives have a consumer dimension and so go beyond connecting siloed workers to provide greater leverage within labour markets.

A typology for platform co-operatives

Platform co-ops can be characterised by the membership variants described above, but crucially they display unique features given their particular business models and application of technology. We have created a typology that accommodates multiple variants of the emerging platform co-operative sector as it is emerging in the UK.

Table 1: Proposed platform co-op types

Type	Example
Multi-stakeholder / community platform is the clearest example of a platform co-operative: users and the producers of the products / services facilitated by the platform, and the platform developers themselves, all come together as member-owners. There is a blurring of the characteristics that have distinguished the community and multi-stakeholder co-ops in traditional co-operatives. This is due to platform features which build a common interest around members' shared needs. However, they will have a specific interaction that will categorise their stakeholder identity, e.g. producer, consumer. These relationships will be reflected within representative structures of governance – or engaged through open membership, on equal terms for all stakeholders.	*Resonate is a stream-to-own music platform harnessing blockchain technology. It is a multi-stakeholder co-operative giving democratic control to artists (45%), listeners (35%) and workers (20%). Through its model, it pays up to 2.5 times more revenue to artists than other streaming services.*

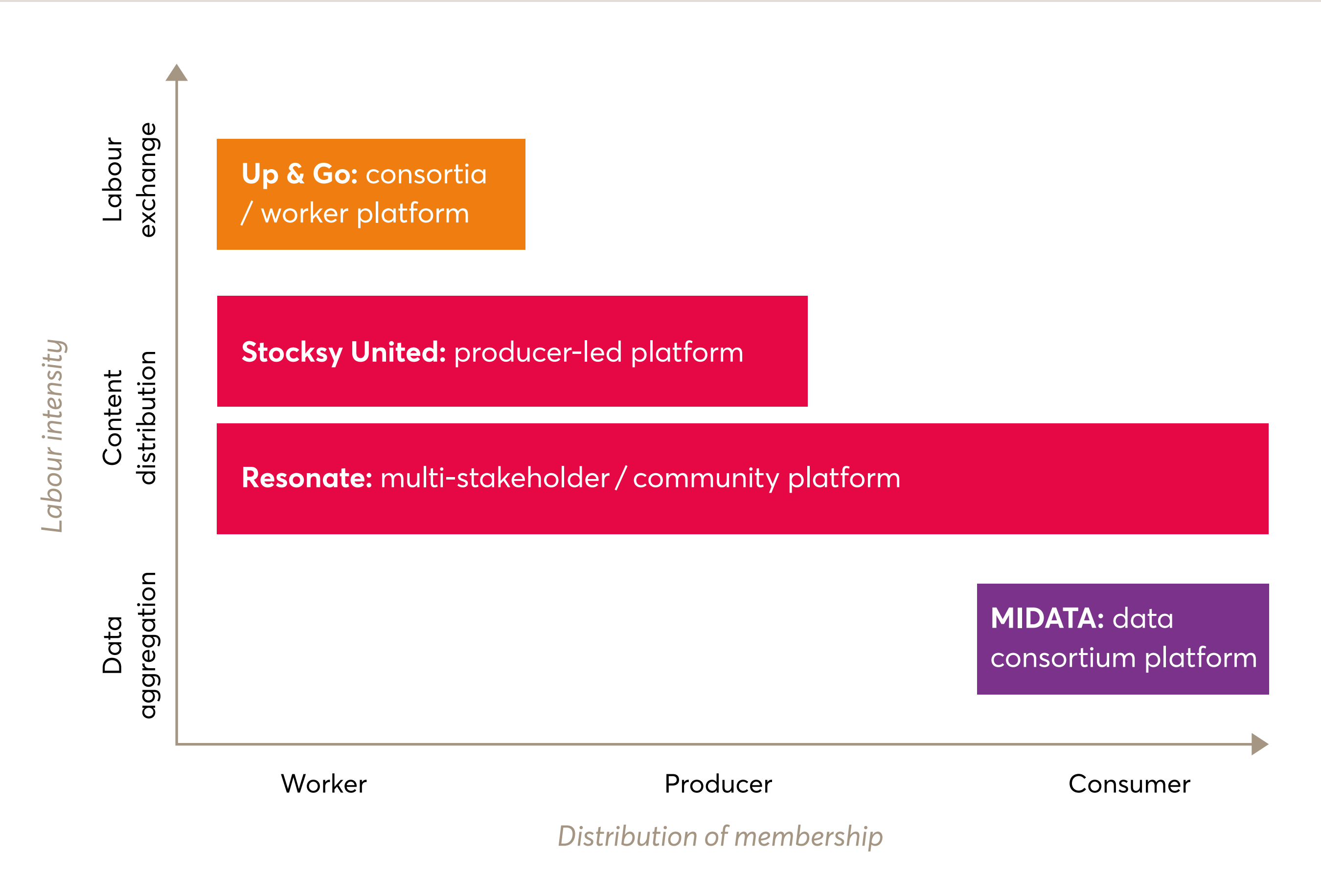
Type	Example
Producer-led platform Geographically dispersed producers who collectively sell their produce through a digital platform. The producers are member-owners that drive the governance of the co-operative but often don't work together. The aggregation and alignment of interests is purely on the producer side with no option for consumers to become co-owners. The platform is often critical in supporting producers' livelihoods and relies on producers' participation to create network effects to drive trade.	*Stocksy United provides curated stock photography and video footage with almost 1000 photographer member-owners, across 63 countries. The members license creative content and receive 50% royalties on standard license sales and 75% on extended license sales – they also receive dividends which equated to $300,000 in 2016 on $10.7m in sales.*
Consortia / worker platform A format that enables greater interaction between worker co-operatives – rather than among autonomous producers. Ultimately, the platform is providing the channel for the workers to provide their services but they engage closely, often in specific localities.	*Up & Go is a platform that offers on-demand cleaning services at guaranteed fair wages launched by four worker co-operatives, based in New York City. The worker-owned cleaning businesses, which are all majority women owned, earn 95% of the cost of every Up & Go cleaning job. The remaining 5% supports the costs to maintain the platform.*
Data consortia platform Another potential variant is the idea of a mutual trust model, mainly focused around the ownership and use of data. The basis for such a model is that "data subjects would pool their data forming a trust, stipulating conditions under which data could be shared...large enough to be effective partners in controlling how [the data is used]" (Lawrence, 2016). Accordingly, a mutual organisation is formed to manage the data on behalf of its members, who have both democratic control and an equitable share in its profits. While the starting point here is around the ownership of data, there are applications of such an approach that more closely resemble the commercial features of a platform co-op.	*MIDATA are a health data co-operative based in Switzerland that enables their members to upload their medical records, mobile-health data and personal genome and can then decide to securely share this data with health professionals and researchers. The platform allows patients to collectively and efficiently make use of their data with profits generated from the voluntary sale of data to researchers.*

Broadly this typology is driven by two characteristics of platform co-operatives, as shown in the figure below, using the examples presented in Table 1.

- **Distribution of membership:** all platform co-operatives will have open and democratic membership, but will vary in regard to how distributed this membership base is across the various stakeholders which interact with the business.

- **Labour intensity:** the other key characteristic influencing the typology, is the proportion of labour that underpins their trading activities. While platform co-operatives span numerous business models, there is a pervasive feature regarding their relationship to labour. As businesses, there is always some labour dimension to the co-op but this will vary in terms of how 'intensive' it is to the business model. Taking the examples in the table, Up & Go's trading is likely to be heavily dependent on labour i.e. workers providing cleaning services, while MIDATA does not appear to be concerned with labour at all but rather aggregating consumer medical data.

Figure 1: Typology of platform co-operatives



Co-operative advantage meets digital platforms

The claim of platform co-operatives is that, in the right circumstances, more participative institutional forms might actually operate with a competitive advantage over corporate business models.

Central to this claim is the recognition that platform co-ops may themselves offer an advantage over traditional co-operatives, in that they can harness the digital technology of the platform to achieve more effective collective governance. Traditional co-ops have struggled to maintain democratic decision making processes when growing to scale. Technology allows contributions and interactions to be logged digitally, and actions can be voted on and carried out in an automated way. This reduces some of the difficulties of conducting democratic decision making at scale.

Beyond this pervasive feature, we have identified three sectoral areas of possible platform co-op competitive advantage, that may offer the right conditions to enable development and growth:

1 Placing the creators in control

Technology has had a profound impact on the creative industries in which the challenges to 'monetise content' has led to both traditional and platform incumbents operating within a marginal business model where revenues are prioritised to support profit extraction for third party investors, at the expense of the return to content creators.

Developing platform co-operatives where the creators of value have more control over how revenues are generated and distributed, could provide a more sustainable business model when balanced with a less extractive relationship with external investors. A platform co-operative would give the creators of value - musicians, journalists, photographers - an active stake in decisions regarding the business model that drives the platform.

Key sector:	Creative industries
Dominant typology:	Multi-stakeholder / community platform
Platform incumbents:	Spotify
Emerging platform co-op:	Resonate

2 Relational models

Online platforms provide a marketplace in both informal and formal settings. A good example is in caring for older and younger people in our society – services that rely on more than transactions to function effectively, depending instead on the quality of relationships and reciprocity between stakeholders. It is also one that faces a major crisis in terms of operating model costs.

By bringing all the various stakeholders that characterise the marketplace into the governance of the business, a platform co-op model can act as the necessary commitment mechanism to ensure all parties have an equal stake in how these services can be well run and provide real value.

Key sector:	Health & social care
Dominant typology:	Multi-stakeholder / community platform
Platform incumbents:	Vida
Emerging platform co-ops:	Equal Care Co-operative

3 Co-operative platforms as a social movement

Some dominant platform business have been accused of exploitative labour practices. For example, Uber have been accused of 'gamifying' how they communicate with drivers in order to get them to drive for longer (Scheiber 2017). Many platform businesses are known to use zero-hour contracts or require workers to be self-employed contractors and so avoid employment regulations. The trade union movement has struggled to keep up with these changes in employment practice.

Platform co-operatives, by contrast, offer both a means of control for workers and producers, and a means of organising labour outside of traditional trade union structures. There is a growing appetite across all areas of the economy for higher ethical practices and standards of production. This too becomes more possible through a platform co-operative approach.

This has the potential to launch a new wave of social movements. A nucleus of consumers and workers can use platform co-ops to ensure much-needed welfare and equity are embedded in online marketplaces – the likes of which thus far have been synonymous with the precarious gig economy, with few rights for workers and negligible protection for consumers.

Key sectors:	Transport, retail
Dominant typology:	Producer-led co-operative
Platform incumbents:	Uber, Deliveroo
Emerging platform co-op:	Green Taxi Co-operative

Co-operatives and the platform economy

While still an emerging model, there are signs that an international movement is developing: events around the world have brought together people from technology, social change and co-op sectors. Scholar activist Trebor Scholz, developed the concept of platform cooperativism and together with Nathan Schneider popularised the model of platform co-ops, leading to the formation of the international Platform Cooperativism Consortium. This enterprise gathers a growing global ecosystem, with important contributors across academia, platform co-op enterprises, software developers, artists, designers, lawyers, activists, policy facilitators, publishing outlets and funders.

The consortium was recently awarded a $1m grant to create a Platform Co-operative Development Kit by Google.org. The kit will focus "specifically on creating a critical analysis of the digital economy, and designing open source tools that will support platform co-ops working in sectors such as child care, elder care, home services, and recycling in the United States, Brazil, Australia, Germany, and India". (The New School 2018) This initiative was welcomed by John McDonnell MP, the Labour Party's Shadow Chancellor of the Exchequer, in which he recognised the value in exploring how the kit could be applied to the UK.

However, platform co-ops in the UK are both few in number and limited in scale, with the movement now characterised by a handful of examples. In the UK, there are very few cases of platform co-ops having emerged out of the start-up or even pre-start phase to trade consistently. Ultimately this is due to a series of overlapping challenges that have limited growth of the model to date.

Challenges and ways forward

Co-operatives have rarely flourished in high-risk sectors. In the nineteenth century co-operatives stayed away from the railway sector, where entry costs were high and failures common. Generally, where relationships are fleeting or transactional or the financial capital requirements are high, the answer has been less likely to be a co-operative. This would explain the lack of co-operatives in industries such as the pharmaceutical or automotive industry.

Today platform co-ops face similar difficulties in trying to move into sectors already dominated by Big Tech companies, such as Uber or Airbnb, that have grown with the backing of venture capital finance. The most pressing challenges are:

1. **Governance:** Platform co-operatives usually lack a geographically-rooted community, and can have divergent stakeholder interests, which create organisational problems.

2. **Technology:** Platform co-operatives may not want to adopt some of the technologies that have become synonymous with Big Tech and surveillance capitalism such as data analytics and artificial intelligence. Their lack of capital also hampers their ability to build platforms and supporting infrastructure to the same standard as commercial platforms - making it difficult to meet consumer expectations in terms of user experience.

3. **Growth:** Platform co-operatives are unlikely to be able to follow the established growth strategies of incumbents and so will find it difficult to build the natural network effects that fuel market penetration and consolidation.

4. **Capital:** The lack of a pure profit-driven business model means platform co-operatives struggle to access capital to grow, as financing in the start-up sector is predicated largely on venture capital, which generally requires investor control and the potential for large future returns.

Solving the capital conundrum

The clearest challenge for growing the platform co-operative sector is in raising capital. The venture capital model behind some of today's largest platforms is characterised by several features which co-operatives are either uncomfortable with or simply cannot accommodate:

- Investors take large risks across a range of companies on the basis that they only need one to be a major success to create a financial return.
- They fund in stages, enabling different risk appetites to be matched to the different stages of a firm's development – angel, venture capital, private equity, Initial Public Offering (IPO).
- In the early stages, investors don't seek payback through company profits – they recover their money via a sale.
- Overall, investors rely on speculative future valuations rather than historic wealth creation to generate the necessary reserves to finance risk-taking in the enterprise

Crucially, co-ops don't have comparable mechanisms for risk taking/sharing or for converting anticipated future profit flows into present value. As a result there is a distinct lack of co-operatives trading at significant scale in capital-intensive industries, like the latest high-growth, tech platform models, because of the difficulty in finding large-scale investment.

To create viable co-operative alternatives to Big Tech companies, we either need to find a way to replicate these capabilities that are consistent with co-operative values – or find radically different approaches.

A new financial model should build on the co-operative advantages that have enabled co-ops in other sectors to succeed. Co-operatives are generally more resilient and less risky as investment propositions than other forms of business: they tend to be bottom-up/needs-driven ventures, with strong relational ties between the various stakeholders (workers, consumers) that make-up the business. This opens up opportunities for a funding model with a different set of priorities to traditional venture capital investments.

The way forward – towards a new funding model?

It seems clear that a commercially driven investment model is not possible for platform co-operatives. Instead, we should look for a source of investment which targets more than pure financial returns. Such a product/model could be considered a complement to the growing social investment market.

There are now a number of social investment products which are helping socially-minded companies or projects to get off the ground and scale. However, most social investment instruments would be unsuitable for platform co-operatives looking to scale. Social Impact Bonds are designed to fund preventative, usually innovative approaches to public services and do not fit with the remit or function of platform co-operatives. Other instruments such as patient capital or quasi-equity are considered too similar to debt finance to meet the needs of platform co-ops.

This paper proposes withdrawable shares for platform co-ops, which would represent a new type of social investment opportunity which meets the specific scaling needs of platform co-operatives.

Co-operatives UK, Locality and a number of other organisations have worked closely on developing this model over the last ten years under the term 'community shares' – namely the use of withdrawable shares by community co-operatives in the UK to access patient, aligned risk capital.

Community shares has developed a strong brand identity for itself in a relatively short space of time. It has become the finance of choice for enterprises that serve local communities with over £150m raised by over 500 enterprises from over 150,000 investors across the UK (Community Shares Unit 2018).

We believe there is an opportunity to develop a complementary brand of this model which would be actively focused on platform co-operatives who are engaged in business activities that stretch beyond local communities. It would build on the terms that have characterised community share offers but have its own identity, potentially under the banner 'mutual shares'.

Mutual shares for platform co-operatives

Mutual shares would draw on the same terms and conditions that have characterised community share offers:

- Democratic control exercised through the practice of one-member-one-vote, not one-share-one-vote.
- A limit on the amount an individual member can invest, preventing such a member exercising undue influence over the co-operative.
- Limited compensation for share capital, paid in the form of interest, at a rate no higher than is sufficient to attract and retain the capital required.
- The right to withdraw share capital, at or below its paid-up value, subject to the discretion of the co-operative's board, safeguarding the best interests of the co-operative.
- No member or shareholder has rights to the residual assets of the enterprise, or any form of capital gain associated with ownership (known as being 'asset-locked').

Applying this model to platform co-ops would work along the same lines as described above, with one key distinction. Legally co-operatives can pay share dividends to people who have a transactional relationship to the co-operative. For instance, if the co-operative was a shop, this would be anyone who buys from or sells items to the shop. Institutional investors (i.e. social investors) would not be eligible for dividend payments as they do not have a transactional relationship with the co-operative.

However, the advantage of dividend payments is that it makes investment a more attractive option for buyers, sellers or members within the co-operative. This helps to resolve the liquidity problem faced by the co-operative, as there should be a strong supply of investors who will fill the gap left as institutional investors exit. These transactional members can be encouraged to build up a financial stake in the co-operative by reinvesting their dividends. The liquidity of co-operative share capital is improved by having investor members who provide capital in addition to the reinvested capital of transactional members. This potentially has a valuable application for platform co-operatives in which we see the scope of patient institutional investment to provide the seed capital for such enterprises to start and grow. This, in turn, will enable them to attract new members and new investors. As these new members reinvest their dividends, the institutional investment can be slowly paid back and recycled.

Ultimately, this is akin to a pure form of social investment where investors forego capital gain for modest financial return, providing businesses with stable long-term risk capital. The community shares market indicates there is a genuine social investor base that is willing to participate on these terms: the challenge and opportunity is to build an equivalent retail market and institutional component in an emerging platform co-operative space.

A theoretical start-up finance cycle for platform co-operatives

Figure 2 presents a theoretical start-up finance cycle for platform co-ops, using a commonly used diagram to show the typical venture capital-backed financing model. It has been adapted to provide the equivalent funding proposition for platform co-ops, in which the institutional investment fund we identify above (working title: Platform Co-op Fund) would provide the early-stage seed capital, equivalent to angel investment secured by traditional tech start-ups.

The intention would be that this would help platform co-operatives navigate through the 'valley of death' of pre-trading, to the point when they are revenue generating and can start to raise investment from their users through public offers of mutual shares, akin to pioneer and time-bound community share offers that have been launched in the community enterprise market. In certain cases, these public offers would allow the institutional investment to be paid and recycled.

Eventually the platform co-operative would look to increase liquidity by moving to an open offer, enabling members to join or terminate membership and, as members, to invest or withdraw share capital. This in effect provides an equivalent liquidity facility achieved by tech businesses that list on a stock market via an IPO.

Piloting the Platform Co-op Fund with Equal Care Co-op

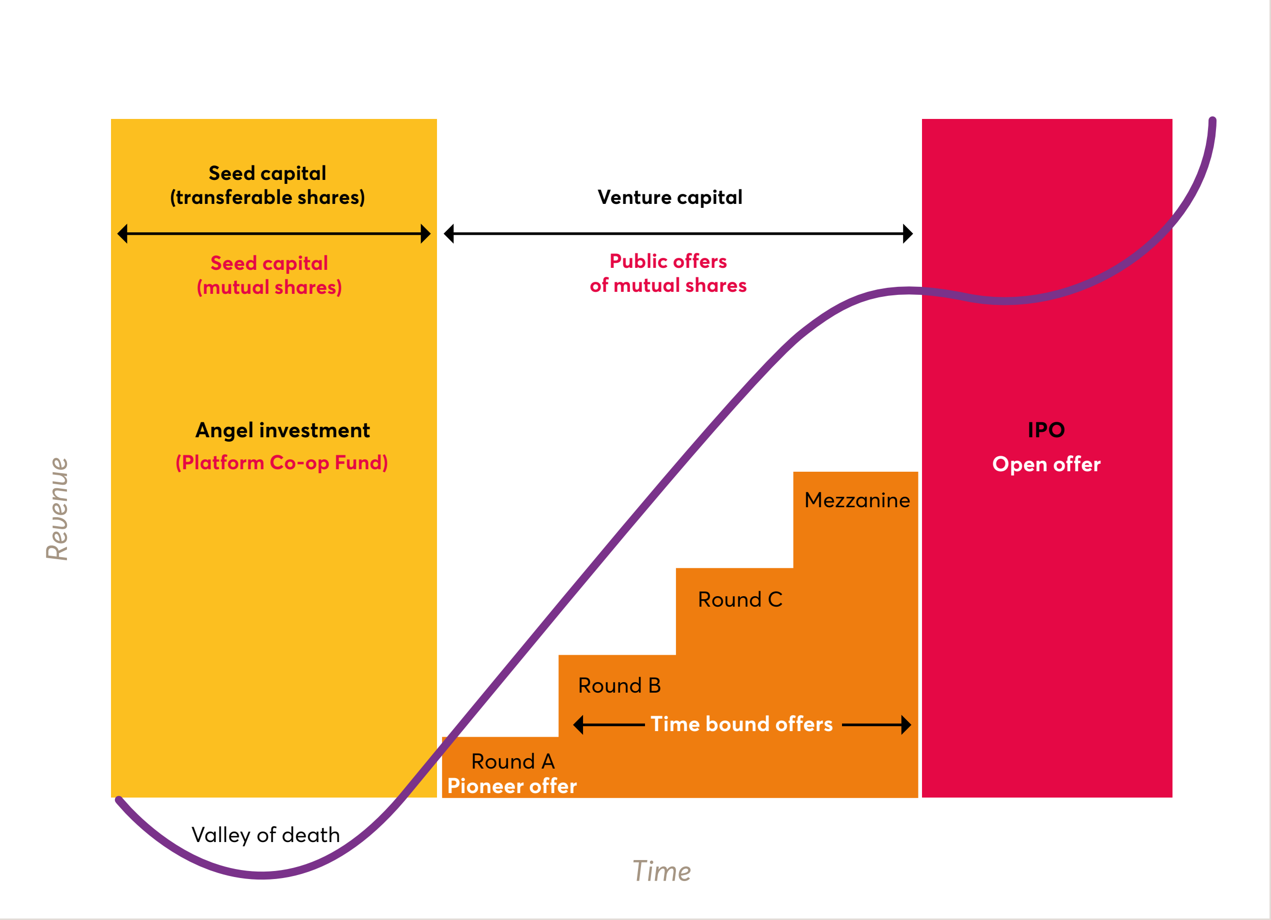
Equal Care Co-op are building a new, co-owned social care platform that puts care givers and receivers in charge. By incorporating as a multi-stakeholder co-operative, their digital product and accompanying service is owned by and accountable to the communities using and sustaining it. They arrived at the platform co-op model as a response to systemic inequities within the social care system, seeing it as a practical route to centering choice, power and ownership with the two most important people in care – the person giving and the person getting support.

The model involves ensuring that front-line care workers are paid as much as possible within existing market rates and Equal Care Co-op have set a target of a minimum wage of £20,000 per annum for new care workers (equivalent to 25% above general industry average), achieved via platform efficiencies and the co-operative and self-management approach.

With the support they have received to date, they are starting to run a Minimum Viable Product (MVP) with a small group of care workers and receivers and have conducted feasibility analyses and user research, focussing on a pilot area of the Upper Calder Valley in West Yorkshire. However, they are now working towards an offer of withdrawable shares to raise the seed investment they need to build their technology and fund the development of community-led neighbourhood care in other areas.

With support from Open Society Foundations, Co-operatives UK is making an institutional investment into Equal Care Co-op, on the terms presented in this paper – an early-stage seed investment of withdrawable share capital. Accordingly, Equal Care Co-op is scoping a public offer of shares that will start to bring a wider pool of members, that can potentially start to reinvest their dividends in the future, to allow this institutional investment to be paid back.

Figure 2: Possible start-up finance cycle for platform co-ops



Withdrawable share capital – glossary of key terms

- **Withdrawable shares:** A type of share capital unique to co-operative and community benefit societies, where members are allowed to withdraw their share capital, subject to terms and conditions set out in the society's rules. This will usually include a minimum period of notice of withdrawal, and provision for the directors to prevent withdrawal if, in their judgement, it would jeopardise the finances of the society. Withdrawable shares cannot go up in value, and some societies have rules that enable them to reduce the value of their shares if the enterprise is performing poorly.

- **Community shares:** Defined by the Community Shares Unit as "withdrawable, non-transferable share capital in an asset-locked society". In other words, they are an equity stake which cannot be sold or given away, but can be withdrawn and repaid, and held in an organisation which has legal safeguards against its assets being used for private gain.

- **Pioneer offer:** A high-risk type of share offer, with the aim to raise cash to cover the research and development costs entailed in getting the organisation investment-ready.

- **Time-bound offer:** This refers to an offer that seeks to raise a target amount of money by a target date, in order to finance a major investment project. A time-bound offer might be made by an organisation that needs start-up funding, or an established organisation with plans to grow. If the fundraising targets are not met, the organisation should offer to refund the money, and not use it for other purposes.

- **Open offer:** A type of share offer that should only be made by organisations that have been trading. Unlike a time-bound offer there is no target amount or timescale.

Discussion of the implications

Withdrawable shares as a source of growth capital for platform co-ops is a proposal with a lot of advantages, but it is no panacea. There are some challenges which should be acknowledged and addressed.

- There is a need for realism about where institutional investment would come from for this model. With commercial returns expected to be marginal, the pool of investors would likely be limited to social investors, trusts, foundations and philanthropists. On these terms, such investors may look at the opportunity as in effect a potentially repayable grant, which provided it aligned with their mission statement and objectives, could unlock funding.

- It's not clear what the potential size of this institutional investment market would be, but is highly unlikely to ever compete with the scale of venture capital funding. This may be a limiting condition for platform co-operatives.

- With no successful test cases to point to, there is a need for an experimental fund to test the viability of this funding model across a range of different platform co-operative forms. This would help future investors to gauge risk levels, returns, liquidity and time-frame for exit.

Recommendations

This paper has set out the major challenges and potential ways forward to determine if the platform co-operative model can be helped to thrive as part of the UK's digital economy. We believe that the key to its potential success lies in solving one crucial part of the problem – the capital conundrum.

In order to further this aim, we have identified three important immediate objectives:

1. We are calling for the establishment of the Platform Co-op Fund to facilitate a valuable injection of an initial £1m of patient seed finance on the terms set out above to support emerging platform co-operatives in the UK. There is a need for experimentation and learning around how to bring capital into enterprises for whom participative ownership is a defining characteristic – this includes how to raise capital, at what stage and on what terms. Hopefully, this learning can begin with the pilot Co-operatives UK is launching with Open Society Foundations, but this needs to be augmented with a wider base of social investors in order to effectively de-risk the concept for the rest of the social investment sector.

2. Beyond awareness raising, there is a need to develop complementary activities to any potential funding model, which provides the right type of support and advice to emerging platform co-ops. There are now a number of 'accelerator-like' efforts currently taking place in the US and Australia, and Co-operatives UK led on the UK's first dedicated platform co-op support programme – UnFound – in 2018. A successor accelerator proposition needs to be explored for the UK, potentially building on learnings internationally, including engaging with the Platform Co-op Development Kit project.

3. While recognition of platform co-ops is growing, it is important to drive further awareness of this model to both potential founders and the wider tech start-up ecosystem. Co-operatives UK is taking an active role in this by launching a nationwide roadshow targeted at socially minded early stage start-ups. In 2019, it will seek to showcase the model by delivering informal 'info sessions' at various tech incubators/start-up spaces across the UK. There is now an opportunity to amplify this campaign by involving a wider set of partners and stakeholders so it achieves greater reach within the tech community. This in turn will hopefully create suitable 'demand-pull' for the Platform Co-op Fund that will attract further investment into the space.

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4. The focus of this paper and the subsequent recommendations have been on start-ups, particularly their ability to access start-up finance. However, there is scope to engage existing tech businesses that are disillusioned with how traditional funding models are undermining their mission-oriented, purpose-driven goals. As such, there is a need for further scoping of the proposed capital models and how they would apply to existing tech businesses that may be considering adopting a co-operative structure.

Conclusion

A growing number of people are organising their work and resources through digital platforms that are owned by just a few large corporations. These platforms offer unprecedented flexibility and independence, but they can also be exploitative.

Network effects, achieved at least in part through large quantities of venture capital funding, evident in the digital economy has led to the dominance of several Big Tech companies, making it harder for people to envisage any alternative to the current model. However, platform co-operativism represents a genuinely viable alternative to this model.

The largest co-operative enterprises worldwide are typically older businesses, analogue in focus and national rather than cross-border. This reflects the way in which people have usually organised democratically through co-operatives, to meet local or national need. Such co-operatives tend to have a pattern of patient growth which is, in part, characteristic of restricted access to capital.

At present there is a great distance between the co-operative community and what platform co-ops may be able to offer through scalable technology and the creation of new services. Just as venture capital successfully learned about new technology and investment opportunities – despite the costs of market bubbles and various failures along the way – so too those who want to develop the co-operative movement need to experiment and learn new lessons.

This requires understanding the potentials of a co-operative advantage and exploring the different forms which platform co-operatives can take. It also means recognising the limitations and challenges to expansion in the sector. Most importantly the means to bring greater capital into emerging platform co-operatives must be found, with a new model drawn from the success of community shares being one viable way to achieve this.

Those in the co-operative sector need to find ways to take part and compete in the platform economy, and in time they can truly take commercial advantage of what might be possible.

Appendix: Primary research

Throughout 2018, Co-operatives UK and Nesta conducted a series of workshops and informal interviews with key experts and practitioners to explore the potential and barriers to growth for platform co-operatives.

These sessions were accompanied by an in-depth literature review alongside a wider survey – all of which underpinned our research, conclusions and crucially helped inform the recommendations presented in this paper.

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