



ICA GENERAL ASSEMBLY

"Co-operation and Peace in the Era of Globalisation"

15 - 17 October, Seoul - Korea

Employee-Ownership in the Knowledge Industries

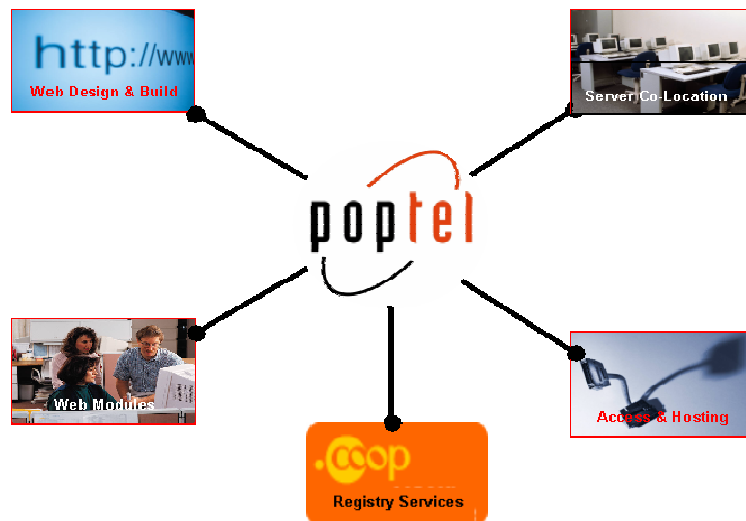
Malcolm Corbett, Poptel, UK

About Poptel

- Poptel was set up in mid-1980s. It is a worker cooperative – originally a small software development house called Soft Solution but with great ambitions for developing on-line services. The Poptel project was born in 1985.
- Today we are one of the top 20 Internet companies in the UK by financial performance and in the top 5 for quality. We have 60 staff based in London & Manchester. Turnover this year will be about £2m and is expected to grow to £6m next year.
- Poptel is a business with a mission – to Connect, Inform, Empower – this reflects the original purpose of Poptel – POPular TELEmatics – providing the technical services for on-line networks, working for social development.
- Poptel is the first worker coop in the UK to have raised venture capital funding, and we have retained a recognisably mutual structure.
- Poptel is also the Registry Operator for Dot Coop – the new home for cooperatives on the Internet. If you haven't visited the Dot Coop stand yet, please do, it is a great adventure that joins us all together.

Poptel Services

This diagram shows the services offered by Poptel.



- Web design and build – our Professional Services Team develops award-winning sites.
- Plug-in modules for your web site: a shop, library, press office, market research tool etc.
- Server co-location – we can house your Internet services in our highly secure Network Operations Centre.
- Internet connectivity, mail and web hosting packages, the original Poptel business.

- The new Dot Coop registry.

The Mutual Advantage in the Knowledge Industries

“Mutual business models are well placed to exploit the potential of Internet and Web technologies to bring together dispersed, independent producers and consumers...Employee ownership is a form of mutuality which should flower in the knowledge driven economy.”

This is a quote from Charles Leadbeater, one of Tony Blair’s favourite gurus. In 1999 he wrote this in a pamphlet entitled *To Our Mutual Advantage*, published by the think tank Demos.

Opportunities for Coops

Three strands of opportunity are apparent:

- An opportunity for knowledge-based worker coops to develop – taking employee ownership the next logical step: equal rights of participation. At Poptel we summarise this by explaining that we employ intelligent adults and we try to treat them as such.
- New relationships with consumers provides an opportunity for consumer and other forms of cooperative
- The new Dot Coop Internet top level domain – our identity – provides an historic opportunity for all of us to stake the cooperative claim to the communications technology of the 21st century. And that means building services that take full advantage of it.

What we mean by the Knowledge Industries

The knowledge industries are largely high-tech including computers, pharmaceuticals, software, telecommunications equipment, fibre optics, and Internet companies. The key assets are intangible assets, often contained in the memory and skills of a firm’s employees – perhaps only 10% of the value of a company is in tangible assets. Apart from some rare exceptions these are not traditional territories for the cooperative movement.

Opportunities for Worker Co-ops

In the knowledge industries people are the assets. As a direct result, we are seeing a rapid increase in the use of employee ownership models firms in the knowledge economy. Many IT companies have some form of employee stock ownership plan. One of the largest and most successful American IT companies, Science International Applications Corporation, is majority owned by its 40,000 employees.

These models not only increase productivity but also greatly improve employee satisfaction and retention rates. For some years those of us in the worker coop sector have argued this anecdotally. We now have some hard proof in a recent study conducted by Professor Richard Freeman of Harvard and London School of Economics. His study tracked 300 UK listed companies over 10 years. Those with a high degree of employee-ownership *and* participation had higher productivity and were more competitive.

Opportunities for Consumer Co-ops

Business strategies in the knowledge economy focus on new types of relationships with consumers.

- Affinity & competing on affiliation
- A recognition that ‘relationships are now assets’
- A need to create ‘membership models’

All of which precisely describes a consumer cooperative. Ever since two McKinsey’s consultants, Armstrong and Hagel, wrote a book called *Net Gain* in 1995, the holy grail of e-commerce has been staring us in the face.

On the Internet customers have greater choice and flexibility. Vendors need to create loyalty. Consumer coops are built on membership. Our task is to use the new channels to make membership more active and meaningful in the 21st century.

In this context Dot Bomb – the collapse of Internet stocks – particularly the purely Internet retailers – is, paradoxically, an advantage to coops along with many other traditional retailers. Most of our businesses have been around for decades, in some cases more than a century. We have strong brand recognition. Consumers tend to trust coops and believe that we are good for local communities (at least in North America and Europe, according to Tom Webb's MOCA research). We are not fly-by-night or get-rich-quick merchants. We are here for the long haul, serving our communities and providing benefits to our members. The Internet – and Dot Coop – provides another channel to deliver our services in line with our principles and values.

Examples of Coops Operating in the Knowledge Sectors

From the UK:

- **Co-oponline** from the retail coop sector, a navigation mechanism enabling customers to more easily find the right service on the web.
- **Smile.co.uk** – one of the UK's most successful on-line banks, from the Cooperative Bank. Used and loved by 400,000 people.
- **St Lukes Advertising** agency, one of the leading Ad agencies in the UK, employing around 150 people, and like Poptel, a worker coop.
- **Total Coverage**, a small design agency, also a worker coop. Total Coverage are responsible for Co-opNet, a very useful e-mail discussion list.

The second group are from the USA:

- **REI.com** – Recreational Equipment Inc, one of the world's most successful on-line retailers, selling sports and recreational goods.
- **NRTC** – the National Rural Telecommunications Cooperative – NRTC member coops supply telecoms and satellite TV to about 30% of rural American households.
- **Touchstone Energy Cooperatives** – an alliance of 550 utility cooperatives forming the new Touchstone brand – tagline: 'The Power of Human Connections'. US coops like Touchstone, NRTC and the credit unions are increasingly focussing their marketing on their unique cooperative structure and difference.

The last two examples are from India.

- **Amul** is the union of Gujarati dairy coops involving over 2m farmers. You can find them at www.amul.com. To me Amul is a great example of a coop. Its purpose is to serve the economic and social needs of 2m of the poorest people on earth. It is effectively a brand: 'The Taste of India'. Amul's whole catalogue is available on the website for next day delivery to over 100 cities. And they are starting up a US operation.
- **Information Technology Coop** which is being set up in Kerala to provide IT services to the cooperative banking sector.
- Another great example is the Korean **National Agricultural Co-operative Federation** with their Internet portal and e-business services, connecting up the 1500 agricultural coops.

Although coops in many parts of the world are making great strides in getting their services on-line (Scandinavia is a particularly good example), it is difficult to find examples of coops providing services in these sectors. The Dot Coop partnership is keen to find as many technology coops as possible, interested in becoming technical partners in the project.

Why Don't Coop Models Dominate?

- Perceptions: in the UK co-ops are perceived to be old fashioned, old economy, not young, vibrant and new.
- Business structures that don't easily allow flexibility in funding, –In the UK coop business structures are rooted in 19th century legislation or are adaptations of

standard company legislation. In either case it is difficult to match the needs for flexibility in funding with clear mechanisms to protect mutuality.

- o A lack of 'cooperative venture capital' Funding that accepts risk, expects a certain level of reward and preserves mutuality.

The Search for Capital

Poptel's experience illustrates the case. We have been in business for nearly 20 years - a long time in technology. We are one of the Internet pioneers.

The original cooperative, Soft Solution, launched in 1983, was initially it was financed purely with sweat equity (i.e. very low wages). Later we expanded with small loans, but by the mid 90's the Internet had taken off, and venture capital was following close behind. The question for us was how to attract sufficient capital and remain a a coop. Following the old routes of raising loans or grants wouldn't work, we needed to finance growth in intangible assets (people) and that required equity.

Initially we approached the traditional cooperative sector in the UK – the retail and banking complex. The Co-Op has billions of pounds of assets, but no mechanisms to support and fund innovation. (Though it is now moving towards the creation of a innovation fund).

So we found a private venture capital fund.

Our Investors

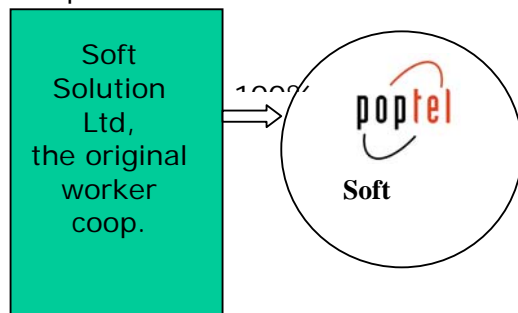
The private firm we found is Sum International, which at that time (late 1999) was rapidly building a portfolio of Internet companies. We persuaded them that investing in a coop was a good idea. Sum invested £2.5m first round funding for 49% of a new company - Poptel Ltd in 1999 and 2000.

We obtained second round funding of £2m from Baxi Trust in 2001. Baxi is a £20m fund created in 2001 specifically to promote employee ownership.

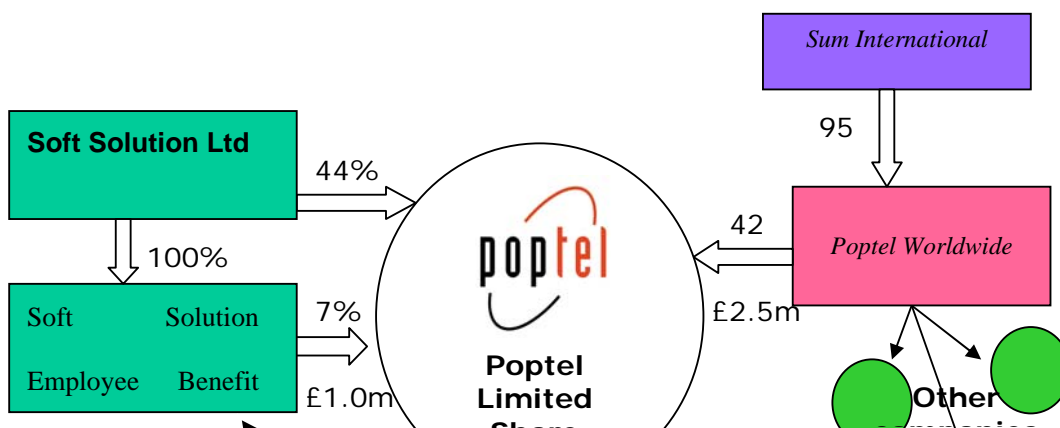
Poptel Structure: Pre-Investment

This is our pre-investment structure:

Soft Solution Ltd, a company limited by guarantee, following ICOM (worker coop federation) model rules. Poptel was a trade mark of Soft Solution.



Post Investment Structure



Poptel members elect seven trustees for the EBT who also act as directors of Soft Solution Ltd. The trustees appoint four members of Poptel' board including the Chair. Sum International appoints two directors and Baxi one.

The Impact

The impact of the funding is clear. We trebled the number of staff, creating whole new teams. We invested £2m in our Manchester-based Network Operations Centre. We successfully bid for, and won the new Dot Coop top level Internet domain with NCBA and the ICA. We have built the registry system.

Conclusions

Cooperative models should be highly successful in the knowledge industries – both worker coops providing the technologies and services, and consumer and other coops developing new relationships with customers. Dot Coop is a great opportunity to drive the development of all sorts of cooperative business on-line. It is a creative space.

But to exploit opportunities to grow coops in the knowledge industries we need our own funding sources that have the flexibility to take risk, to invest in intangible assets - people – whilst still protecting mutuality.

We need to make use of the resources that exist within the movement to create sources of funding that actively promote the development of cooperative businesses in these new sectors.

Finally we need to promote the idea of cooperation as a model of dynamic and socially responsible business development in the 21st century, not a hangover from the 19th century.

Malcolm Corbett is Vice Chair of Poptel Ltd. He is also Chair of Social Enterprise London, promoting cooperatives in the UK's capital and a former chair of the UK worker coop federation, ICOM.