



MEMBER VALUE PROPOSITION
A GUIDE FOR CO-OPERATIVES

Member Value Proposition: A Guide for Co-operatives

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Preface

While farmers' co-ops in Scotland do a fantastic job on behalf of their members, they are also the first to admit that they are not so good at stating the co-operative's 'value proposition' and its contribution both to the viability of individual members' farms and to the rural communities in which they trade. We wrestled with how to address this for a quite while until a meeting with Professor Tim Mazzarol of the University of Western Australia revealed that he had been working on the same need with a large agricultural co-op in Australia. His academic papers, which are credited in this guide, provided a thought framework that inspired our Knowledge Transfer Project and resulted in this guide.

Our intention was to make available a guide for use by directors and managers to research and compile their co-op's Member Value Proposition either themselves or by calling on SAOS for expert assistance. The guide reasons the 'business case' for measuring and communicating a Member Value Proposition, and suggests how this can be done with reference to case study examples. One of the challenges in any co-op is that the published financial accounts do not reflect the performance of the co-op and its value to members. The measures differ from conventional companies, as the benefits are experienced on members' farms, often accompanied by significant contributions directly and indirectly, to rural communities. The guide introduces measures and indicators to help identify the full contribution that co-ops make.

We are indebted to the Scottish Funding Council and InnovateUK for supporting the research and development work involved in compiling the guide. Dr Elizabeth Macknight of the University of Aberdeen made an essential contribution in all stages of the project. Her experience, advice and commitment were invaluable. Our KTP Associate Maximiliano Lorenzi quickly got to grips with what was required and always delivered impressive results on time. Our KTP advisers kept us focussed and disciplined and contributed from their wealth of experience. Finally, my colleague Stephen Young very effectively managed the project on behalf of SAOS and is committed to working with agricultural co-ops, wherever they may be, to produce Member Value Propositions that do full credit to their performance and role.

James Graham, Chief Executive SAOS Limited
October 2016

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Maximiliano Lorenzi

Introduction

“Not everything that counts can be counted, and not everything that can be counted counts,” read a sign hanging in Albert Einstein’s office at Princeton University.

According to Co-operatives UK, around 6,797 co-operative enterprises in Britain contribute £34.1 billion to the national economy in 2016. The co-operative model of enterprise is founded upon the democratic participation of members (‘one member, one vote’). Co-operatives operate in all business sectors and their primary purpose is to meet members’ needs. Commercial activities are conducted in ways that conform to an internationally agreed set of values and principles. Around the world, in myriad contexts and locations, co-operatives apply those values and principles to deliver benefits to members.

This guide has been written for co-operatives aiming to develop a Member Value Proposition. It covers three areas in which co-operatives can measure the benefits to members by using relevant indicators. These are financial and economic indicators, non-financial indicators, and community and sustainability indicators. The process of drafting a Member Value Proposition helps co-operatives to strengthen their business by engaging members and other stakeholders and keeping them informed about the benefits of co-operation.

The target audience for this guide comprises the directors and managers responsible for planning and developing a Member Value Proposition. It is often challenging to deliver benefits to members while simultaneously ensuring that sufficient earnings are retained by the co-operative for sustainable business operations and growth. Directors and managers must put forward a convincing account of the role that every individual member plays in the creation of value shared among the whole membership. They need to communicate effectively with members about the personal contributions that are required to achieve collective benefits. A Member Value Proposition is a tool to assist directors and managers in that important task.

The business case for measuring and reporting member value

A Member Value Proposition provides a way of explaining to people why they should join the co-operative. It should reflect existing members' understanding of the reasons for remaining a member of the co-operative. The process of formulating a Member Value Proposition requires the co-operative to evaluate its services. It is an account of how the co-operative fulfils members' needs.

Members scrutinise expenditure by the co-operative and ask what it is they will receive in return for paying a fee for continued membership. The Member Value Proposition shall provide the answers. Directors and managers have to recognise that people may lose interest in the co-operative if deficiencies are apparent in its services. Work towards the Member Value Proposition can have commercial and educational outcomes. It involves conversations and actions that provide a stimulus for improvement in performance and that aid the co-operative to grow.

Reasons for creating a Member Value Proposition

- facilitate a better understanding of what a co-op does and where it adds value
- build trust and loyalty among existing members
- encourage prospective members to join
- strengthen the co-op's relationship with members
- focus strategy and leadership on member benefits
- support recruitment and motivate staff.

Benefits of measuring and reporting value

- improve co-operative performance and drive business growth
- gain information for decisions on resource allocation
- plan for long-term economic viability
- generate data that can be used for benchmarking
- provide incentive to staff for continual improvement
- highlight opportunities for innovation
- promote better understanding of the co-operative enterprise model.

A value proposition

- finishes the statement: 'our members joined because...'
- appeals to members' strongest decision-making drivers
- is specific, accurate and brief
- addresses 'value' in different forms such as price, quality and time.

A value proposition is not

- a mission statement
- aspirational
- a laundry list of services.

Case study: ANM Group

Organisation type: farmer owned co-op

Website: www.anmgroup.co.uk

Established in 1872, ANM Group is one of the largest producer-owned farming, food and finance co-operatives in Scotland and ranked in the Top 25 of UK co-operatives. The Group has 5,000 members. ANM interests are in livestock auctioneering and marketing; the land market; commercial and industrial plant, machinery and equipment sales; and the catering and hospitality industry. ANM members' benefits brochure is the tool that this co-operative uses for communicating its Member Value Proposition to members and other stakeholders. In 2015 the benefits were calculated to have a monetary sum of £518,000. The benefits were partly measured in fiscal terms of competitive interest rates paid on member loans, dividends, Commission cap savings, members' trading bonus and livestock finance scheme. Non-fiscal benefits were measured in the forms of financial support and advice, representation at stakeholder level with the Scottish Government, and knowledge transfer. ANM can enrich the Member Value Proposition by underlining the co-operative's contribution to the environment and the local community. One example of engagement with the local community is the recent award of a Knowledge Transfer Partnership for ANM to work with the University of Aberdeen's Business School. The goal of this project is to develop ANM's digital presence and communications to enhance members' and customers' experience of interacting with ANM and ensure sustainable business growth.

Alignment of strategy with measurement and reporting

Once the business case is made to measure and report on your co-operative Member Value Proposition it is essential to establish a management process to take action. There are five key steps involved:

Step 1 define the core business

Step 2 determine the material issues/activities

Step 3 select indicators

Step 4 collect data

Step 5 draft Member Value Proposition and communicate with members.

A Member Value Proposition should reflect an understanding of how the impact of the co-operative's business activities relate to the co-operative values and principles established by the International Co-operative Alliance.

Values

Self-help

Self-responsibility

Democracy

Equitability

Transparency

Openness

Learning

Concern for community

Principles

1 Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2 Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3 Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4 Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5 Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6 Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7 Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Source: International Co-operative Alliance

Directors and managers may wish to begin by asking questions about and testing the co-operative's activities against each of the values and principles. In practice, answering those questions is not always straightforward to do because there are many different dimensions to consider and many different perspectives are needed to gain a rounded assessment. Nevertheless, the values and principles can be a useful starting point for directors and managers to interrogate the issue of what matters most for members.

A Member Value Proposition should measure and report value that is specific to the particular commercial and social context in which the co-operative operates. What is appropriate for one co-operative enterprise may not be useful for another. Each co-op has to select the most appropriate indicators for measuring value.

Step 1 define the core business

The core business is what the co-operative was set up to do for the members. It is what makes the co-operative unique in comparison to other businesses. In what ways does the co-operative deliver value for members? How does the co-operative organise its commercial activities in order to deliver this value?

Step 2 determine material issues/activities

The task here is to identify issues that are relevant to:

- financial performance
- strategy, policies and services
- governance and ownership
- co-op values and principles
- local community and environment.

Step 3 select indicators

Appropriate indicators measure value for members in a clear and intelligible way. Indicators shall be specific, measurable, and relevant. Some indicators cannot be used to generate a numerical figure or percentage. In these cases, the solution is to describe in words the value for members in terms of activities or services that the co-operative provides. If an indicator needs a lot of explaining then it is likely that it will not work effectively to communicate a key message. Try to select indicators that will be simple to explain to the relevant audiences of existing members, potential members and other stakeholders.

Step 4 collecting data and Step 5 drafting the Member Value Proposition are covered in the next chapters on different types of indicators.

Financial and economic indicators

Financial and economic indicators are one way of measuring ‘value’ and point to the sustainability of the co-operative business in the marketplace. These indicators reveal the capacity of the co-operative to distribute surplus to members and to make a positive contribution to local and national economies. The main types of financial and economic indicators are detailed in Table 1. You may be able to identify and to add further indicators of this kind if they are relevant to your specific context. Some data on the financial measures will already be collected by the co-operative because it is required for statutory accounts and for regular reporting at Annual General Meetings.

Table 1 Financial and economic indicators

Indicator	Description	Rationale
Money and time savings (% and full time equivalent) List and describe the savings	Measure of money and time savings due to the purchase of co-op goods and services	Member economic gain
Marketing; list and describe activities	Increased market access, access to value-added markets and enhanced marketing opportunities	Add value to a product; counteracting concentration of market power
Price (cash figure or %) over a period of time	Price differential; benchmark co-operative price against market price	Add value to a product and reduce price variability; counteracting concentration of market power
Transactions; list and describe activities (economies of scale, storage, central operations, efficient communications)	Reduction of transaction costs	Member economic gain
Operations and services; list and describe activities (professional management, handling paperwork, legislation compliance)	Reduction of hassles	Member economic gain

Risk management; list and describe activities (credit insurance, market intelligence, early payment, cash flow management)	Management or reduction of risk	Member economic gain
Members' trading bonus (cash figure)	Bonus paid to members	Reward for being a member; economic gain
Interest rate compared to market rate (figure); volume of loans (figure)	Provision of loans to members	Member economic gain
Amount of £ trade with members as part of sales or income (%)	The monetary value of sales to customers or income to workers who are members	Member economic involvement
Members' wages in comparison to total wages (%)	Ratio of wages paid to members	Member economic involvement
Annual turnover (%)	The change in annual sales or income volume	Sustainability and growth of the business in the long term
Net surplus distributed amongst co-operative members (% of total surplus and/or cash figure)	A measure of the amount of surplus shared by the co-op amongst its members as a dividend, as lower prices, or as premium wages	Virtuous circle linking values and principles to commercial success
Shareholder funds (cash figure)	Six months' worth of operating reserves	Safety net for members in the case of a crisis
Members' shares return compared to Bank of England base rate	Return delivered on shares	Reward for being a member; economic gain

Generating a profit is not the primary motivation for a co-operative, yet retaining income is essential for re-investing in the business to allow the enterprise to grow. Therefore it is very important to have a clear explanation of how the surplus is being distributed amongst members. Many co-ops are committed to pay wages above the market level or to give a premium to the members when the co-op buys goods or sells products or services. Describe how you deliver on this characteristic of a co-operative. Perhaps your business model has proven to be resilient to recession because you have adopted a risk aware approach to enterprise planning which is not easily demonstrated in traditional accountancy. All of these considerations need to be set out in the Member Value Proposition.

Case study: Farm Stock

Organisation type: farmer-owned co-op

Website: farmstock.org.uk

Farm Stock is a farmer-owned, livestock marketing co-operative dedicated to maximising returns to livestock producers. It is based in the Scottish borders and operates throughout central and southern Scotland. Comprised of over 1,000 farmer members, Farm Stock is the largest single co-operative of its type operating within the Scottish livestock industry handling large numbers of both sheep and cattle with an annual turnover in excess of £13 million. The co-operative creates value by minimising marketing costs and maximising prices. Value for members is being measured in terms of higher prices for lamb, reduced hassle for farmers, trust, provision of technical information, lower costs, payment within seven days, high service levels and management of risk.

With the assistance of SAOS, Farm Stock has started the process of drafting its Member Value Proposition. The co-operative has mapped out its activities and reviewed the indicators currently used for measuring value for members. The next step is to find appropriate new indicators. The co-operative aims to make the most of its Member Value Proposition to communicate to existing and potential members the added value in being a member of Farm Stock.

Non-financial indicators

Whilst financial and economic benefits are relatively easy to measure and collect, non-financial benefits are more difficult to estimate in terms of a cash sum. The aim instead is to measure member benefits in terms of engagement and added value provided by joining the co-operative. Each co-operative needs to select non-financial indicators that suit the business and the relationship with members. In many cases it is not possible to convey the value as a numerical figure; therefore the best option is to describe and explain the main activities that generate a specific benefit for members.

Table 2 Non-financial indicators

Indicator	Description	Rationale
Governance; list and describe good practices (transparency of information to members, opportunities for all members to become directors, training and development of directors)	Members' participation in planning, governance and decision-making	Member control; the co-operative difference
Member profile (number of members)	An indication of absolute growth in member numbers year on year	Strength of the co-operative
Rate of new members joining over lapsing members	Change in membership composition	Capacity to attract new members
Knowledge transfer; list and describe activities (specialist advice, investment in R&D, best practice)	Knowledge and information transfer	Education and training; improve performance and profitability
Hours of members' training; describe activities	An indication of the value the co-operative attaches to building members' technical skills and specialist capabilities	Economic gain; education and training
Remuneration committee (description of the policy)	An indication of control on directors' remuneration	Member democratic control

Report the highest annual salary/wage and benefits as a multiple of the lowest annual salary/wage and benefits paid by the co-operative	Employee remuneration multiple	Equity
Satisfaction rate in member survey	Ask members about their overall satisfaction with the co-operative	Satisfying members' needs
Member participation; list and describe activities	Overcoming alienation, achieving sense of security and sense of belonging, being aware of personal influence and importance in the co-operative	Member control; the co-operative difference
Outreach; list and describe activities	Activities undertaken on behalf of members	Representation of members' interests outside the co-operative
Collaborative working; list the number of other co-operatives you deal with regularly; describe activities	Business done or links established with other co-operatives	Co-operation with other co-operatives

Case-study: Anglia Farmers

Organisation type: enterprise owned co-op

Website: www.angliafarmers.co.uk

Anglia Farmers (AF) is the largest agricultural purchasing group in the UK with a buying power in excess of £250 million, purchasing almost one tenth of key farm inputs nationally. The co-op has 3,500 members who, collectively, farm over a million hectares of land in the UK. Members can expect to make significant savings on the main farm inputs as well as a wide range of goods and services, from vehicles and building materials to telecommunications and animal health products. Member value is primarily about time and money savings. Savings are estimated to occur in: mobile phone bills (30% reduction), electricity (15% reduction), agricultural input (4% reduction), and fuel (2-3% reduction). Following a request from members, AF decided to help wider rural communities. This led to AF Affinity being established as a spin-off business, for example to work with rural charities on fuel buying.

Source: Co-operatives UK 2013

Community and sustainability indicators

Community and sustainability measures relate to a variety of issues on which the co-operative decides to engage in discussion or action, including local community development, environmental protection, and efficient use of natural resources.

Table 3 Community and sustainability indicators

Indicator	Description	Rationale
Amount invested in or benefiting local communities (figure and list of initiatives)	An indication of how a co-op is giving back to local communities (sponsorship, education, charity, environmental protection)	Concern for the local community; the co-operative difference
Innovations in daily business practices; list activities (staff, environment, supply chain)	An indication of how a co-op is doing things differently in daily business to enhance positive social impacts and prevent negative social impacts	The co-operative difference
Contribution to environmental sustainability; list activities (reduced use of chemical inputs, shift to organic produce, steps to ensure animal welfare)	Description of measures that contribute to environmental sustainability	Sustainability; economic gain
Investment, loan or reduced price on renewable energy (figure and list of measures)	Measure of how a co-op is helping members to shift to renewable resources	Sustainability; economic gain
Resource use; reduction in waste and/or greenhouse gas emissions (% or figure and list of measures)	Measure of how a co-op is minimising its use of scarce natural resources and the adverse effects of pollution, whilst reducing operating costs through resource efficiency	Sustainability; economic gain

Benchmarking the co-operative's performance against the performance of competitors within the same sector may be helpful for showing improvement or recognising failings. Members can acquire an understanding of the co-operative's trajectory of performance over time. Despite being difficult to convey these indicators as a cash figure, community and sustainability benefits reveal the true difference of co-operatives compared to other forms of business and represent high value for existing and potential members.

Case study: Co-operative Bulk Handling

Organisation type: enterprise owned co-op

Website: www.cbh.com.au

CBH Group is Australia's largest co-operative and a leader in the Australian grain industry with operations extending along the value chain from grain storage, handling, transport, marketing and processing. Established in 1933, it is owned and controlled by around 4,200 Western Australian grain growers. The co-operative creates value for members through low storage and handling fees, competitive freight rates, grower loyalty rebates, and annual investment in the grain network. The co-operative communicates value through The Grower Value Statement, which details the real value returned to the member, the industry, and the community. The first part of the statement provides an overview of CBH's achievements at the group level and the benefits that flow to growers. The second part highlights how the co-operative is operating within a specific geographical area. The third part of the statement shows where CBH has been able to return value directly to each individual member. More information on the co-operative's performance and activities can be found in the CBH Annual Report.

Next Steps

The co-operatives that perform best have a clear understanding of how they generate value for members. This guide has set out how a co-operative can measure and report value in terms of financial, non-financial, and community/sustainability indicators. We recommend that a co-operative choose the most appropriate indicators for benchmarking against competitors. After a statement on Member Value Proposition has been drafted, directors and managers will then need to return to the co-operative's strategy and look at options for improving value for existing and new members.

Creating a strong communications plan on Member Value Proposition is essential for directors and managers of co-operatives. Co-operatives have three means of communication: personal contact, print and audio/audio-visual. Personal contact is the most effective option. Opportunities include small group discussions, Annual General Meetings, as well as the contact that individual members have with the co-operative's employees. Written communication tools are newsletters and e-mail but keep them concise and informative. The Member Value Proposition should be short and easy to read for members. The Internet opens up a range of possibilities for the use of audio/audio-visual communications including podcasts, videos, and presentations.

Communicating the co-operative's value to external stakeholders is also important. Forging a relationship with local communities, public entities and non-members may increase the perception of value for co-operative members, attract new members and underline the advantages of the co-operative business model. Strategies for reaching out may include a social media presence, a well-designed website, sponsorship, and hosting community workshops and other public events.

Assessing member value is a dynamic process. It is linked to the lifecycle of the co-operative, to new demands coming from existing members and recruited members, and to the changing condition of the market. The Member Value Proposition should be updated and modified every year in order to make the most of this management tool and to adapt it to the members' evolving preferences and goals.

Further reading

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